COMMITTEE REPORT NO. 1 - 14(4) TABLED ON JUN 5 2001

Northwest Territories Legislative Assembly

Standing Committee on Accountability and Oversight

Report on the Review of the Report of the Auditor General to the NWT Legislative Assembly for 1999

Chair: Mr. Charles Dent, MLA

MEMBERS OF THE STANDING COMMITTEE ON ACCOUNTABILITY AND OVERSIGHT

Charles Dent
MLA Frame Lake
Chair

Floyd Roland
MLA Inuvik Boot Lake
Deputy Chair

Brendan Bell
MLA Yellowknife South

Bill Braden
MLA Great Slave

Paul Delorey
MLA Hay River North

David Krutko
MLA Mackenzie Delta

Leon Lafferty
MLA North Slave

Sandy Lee
NLA Range Lake

Michael McLeod
MLA Deh Cho

J. Michael Miltenberger
MLA Thebacha

Steven Nitah
MLA Tu Nedhe

STAFF MEMBERS

Doug Schauerte
Committee Clerk

Laurell Graf
Committee Researcher

Doug Pon
Committee Researcher

105-00464/

Northwest Territories Legislative Assembly
Standing Committee on Accountability and Oversight

JUN 5 2001

THE HONOURABLE ANTHONY (TONY) WHITFORD, MLA
SPEAKER OF THE LEGISLATIVE ASSEMBLY

Mr. Speaker:

Your Standing Committee on Accountability and Oversight has the honor of presenting its Report on the Review of the Report of the Auditor General to the NWT Legislative Assembly for 1999, and commends it to the House.

Charles Dent

Charles Dent, MLA
Chair

P.O. Box 1320
Yellowknife
Northwest Territories
X1A 2L9
T: (867) 669-2299
F: (867) 873-0432
www.assembly.gov.nt.ca

The Report on the Review of the Report of the Auditor General to the NWT Legislative Assembly For the Year 1999

Introduction

- The Standing Committee on Accountability and Oversight met to review the Report of the Auditor General to the NWT Legislative Assembly for the year 1999 on April 2 through April 3, 2001.

- The first day involved briefings by the Committee analyst and staff from the Office of the Auditor General on issues raised in its report. Staff from the Auditor General's Office included Mr. Ronald C. Thompson, Assistant Auditor General; Mr. Roger Simpson, Principal; and Mr. Shawn Vincent, Legislative Auditor.

- A public meeting was held on April 3, 2001, Committee Members took the opportunity to raise issues with witnesses that came before the Committee. The list of witnesses included Mr. Lew Voytilla, Comptroller General; Mr. Kelsey Scott, Analyst, Financial Management Board Secretariat (FMBS); Ms. Debbie Delancey, Associate Deputy Minister, Health and Social Services; Mr. Warren St. Germaine, Director of Corporate Services, Health and Social Services; and Mr. Fred Koe, President, Northwest Territories Development Corporation.

Public Accounts Issues

- Public Accounts are the audited consolidated financial statements of a government. The consolidated financial statements represent the financial position of the Government of the Northwest Territories.

- The Committee and the Auditor General noted that the Government's Public Accounts and most of our territorial corporations' annual reports are rarely tabled in a timely manner. The public and Members of the Legislative Assembly have a need for timely, accurate and relevant information on the financial condition of the Government, so they can effectively hold the Government accountable for the way in which it manages and spends public money.

- The Standing Committee on Accountability and Oversight conducted an interjurisdictional survey to determine if Public Accounts for the fiscal year 1998-1999 have been submitted in a timely manner and, whether other Canadian jurisdictions included unaudited statements which may accelerate the tabling process. Of the jurisdictions surveyed in Exhibit 1.0, only Alberta and the Northwest Territories required audited statements without exception. As of June 4, 2001, the results are as follows:

Exhibit 1.0

Interjurisdictional Survey
Tabling Dates of 1998-1999 Public Accounts

Jurisdiction	Date Tabled
Northwest Territories	30-June-00
Yukon	01-Nov-99
British Columbia	09-May-00
Alberta	Departments table individually.
Saskatchewan	Vol. 1 & 2: 07-Dec-99 Financial Statements Compendium Parts A & B tabled: 26-May-00
Manitoba	Vol. 1-3: 30-Nov-99 Vol. 4: 03-Aug-00
Ontario	15-Oct-99
New Brunswick	Not formally tabled.
Nova Scotia	15-Dec-99
Prince Edward Island	vol. 1: 07-Dec-99 vol. 2: 14-Feb-00
Newfoundland	14-Dec-99

- The Committee noted that the Northwest Territories tabled its 1998-1999 Public Accounts fifteen months after their March 31, 1999 year-end. Only Manitoba tabled their 1998-1999 Public Accounts later than the Northwest Territories.

  An interjurisdictional survey of the 1999-2000 Public Accounts was also conducted, and is included in Appendix C of this report. As of June 4, 2001, jurisdictions that tabled later than the Northwest Territories, which tabled on February 27, 2001, were Prince Edward Island, which tabled on March 23, 2001; Nova Scotia which tabled its final Public Accounts component on April 4, 2001; and Nunavut and British Columbia which have not yet tabled their reports. .

- In recognition of the additional efforts required to improve the timely submission of the Public Accounts, the Auditor General's Office suggested that a progressive approach be taken. For example, the 2000-2001 Public Accounts may be submitted by October 31, 2001 and in the succeeding year by September, 2002 and so on. Committee Members note that the tabling of the Public Accounts prior to review of the Government's Business Plans would be beneficial.

  The Standing Committee on Accountability and Oversight and the Auditor General's Office encourage the Government to increase the readability of its Public Accounts; and to regularly produce a straight forward and user-friendly document based upon performance indicators that will give the public and Members of the Legislative Assembly a clearer picture of where this Government stands financially. The Government's Comptroller General Office, which is responsible for the compilation of our Public Accounts, agreed.

  In light of these significant reporting and tabling issues, the Standing Committee on Accountability and Oversight, upon the advice of the Auditor General's Office, made the following recommendations:

Recommendation #1

The Standing Committee on Accountability and Oversight expects the Government to immediately adopt a progressive approach to the timely tabling of its Public Accounts by having:

(a) the 2000-2001 Public Accounts ready for tabling by October 31, 2001;
(b) the 2001-2002 Public Accounts ready for tabling by September 30, 2002;

(c) the 2002-2003 Public Accounts ready for tabling by August 31, 2003;
(d) and in subsequent years, to have the Public Accounts ready for tabling by no later than August 31 of the same year.

Recommendation #2

The Government of the Northwest Territories regularly produce a brief, timely, accurate and straight forward document that incorporates performance indicators based upon data included in the Public Accounts to report the financial health of the Government.

Furthermore, the document must:

1. ***Be published once a year initially;***
2. ***Be user-friendly; and***
3. ***Use the same set of indicators each year.***

Compliance With Authority

- The Standing Committee on Accountability and Oversight stated in order to improve the effectiveness of the Government's overall Third Party Accountability Framework, there must be compatible and user-friendly information databases and easy-to-use communication linkages within and between the Government and its third party program and service providers.

  Committee Members are also of the position that an effective Third Party Accountability Framework combined with a cost-effective procurement policy would contribute to increased levels of compliance with the *Financial Administration Act (FAA)*.

- The Auditor General noted that in the past few years, there has always been at least one department that has overspent

  The Auditor General noted three instances of non-compliance with authority. These instances are described on the next two pages.

Health and Social Services

- The *FAA* states a department cannot spend more than its approved budget, including supplementary appropriations. Any over-expenditures are in violation of the *FAA*.

  The Standing Committee on Accountability and Oversight expressed concern that the Department of Health and Social Services has repeatedly overexpended its budget for the same reasons every year. These reasons are increases in Non-Insured Health Benefits, Out of NWT Hospitals, Physician Services, Children in Care programs, and Independent Living.

- The Auditor General's Office noted that these expenditures could be avoided or minimized if the Department incorporated models or made educated assumptions that take into account potential or anticipated expenditures. The Auditor General added that the Department should extend their outlook and plan in advance of expected expenditures. However, the Department has repeatedly replied that it does not know the full extent of all its expenditures until "all the bills are in".

Pay Equity

- The Government of the Northwest Territories accrued $25,000,000 in 1997-1998 and another $8,000,000 in 1998-1999 as an estimated provision to settle the pay equity dispute. However, in accruing the provision, the Government did not comply with the authorization process as set out in the *FAA,* which requires the Government to request a supplementary appropriation within 15 days of tabling its Public Accounts, which it did not in either year.

  The Auditor General's Office recognized the actions of the Government were based on practicality, but believes the Government should have adhered to the *FAA* and obtained the necessary authority. Although this was primarily a technical issue, the Auditor General's Office and the Standing Committee on Accountability and Oversight encourage the Government to either follow the *FAA* in the future or prepare amendments to the *Act* to better reflect the actual operating environment.

- During the recent review of the Government's Main Estimates for 2001-2002, the Government reported an 83% settlement rate or $27,390,000. The Government commented that, close to a 100% acceptance rate could be achieved if they could locate all remaining employees.

Northwest Territories Development Corporation (DevCorp)

- The DevCorp may subsidize its subsidiaries' operating costs based on jobs created directly or indirectly, up to an amount prescribed by regulations under the *NWT Development Corporation Act*. Until recently, no such regulations existed. Since 1989, the Financial Management Board (FMB) had set an upper limit of $10,000 per annum per job created.

  The *Act* also allowed the DevCorp to make an initial investment in a subsidiary based on jobs created directly or indirectly. The FMB had set the initial investment limit at $100,000 per job created.

  The Committee was informed that regulations are now in place, but they allow $25,000 in annual contribution per job created, a significant increase from the previous $10,000 as the upper limit per annum per job; and, initial investment limits per job created remain at $100,000 per job created.

- The Corporation for the fiscal year 1998-1999 was not in compliance with the *FAA*, as it did not collect information on jobs to demonstrate that subsidies did not exceed the maximum set by the FMB. The Auditor's Report on the financial statements for the years ended March 31, 1997 and 1998 was qualified for the same reasons.

- The Standing Committee on Accountability and Oversight and the Office of the Auditor General noted that the DevCorp has undergone a complete turnover of senior management in April 1999, and the current management is making progress on correcting past reporting and management difficulties. The Committee Members encourage the DevCorp management to continue its efforts to diligently meet its mandate.

Public Private Partnerships (P3)

- Originally, the Government planned to complete seven P3 projects in the west. The private sector would build the required facility and the Government would lease it back with a buyout option at the end of the lease term.

- However, only the student family housing facility in Fort Smith has been completed, and the remaining projects have been determined by the Government to be unsuitable for the P3 approach. From the Fort Smith project, the Government has learned that a

P3 approach does not necessarily represent cost savings or value for money. The Auditor General's report concluded that the P3 project will cost the taxpayers more money than if the Government had built and operated the facility itself.

- The Government has halted its use of the P3 approach and will take the conclusions of the Auditor General into consideration if it ever considers using the P3 approach again. The Standing Committee on Accountability and Oversight supports the Government's decision to put a moratorium on new P3 projects.
- Finally, the Committee also asked the Government if any proponents were paid back on cancelled P3 projects. Committee Members were informed that fees to P3 consultants totaled $900,000 and the proponent involved in the Inuvik Hospital P3 project was compensated in the amount of $40,000.

Department of Health and Social Services: Alternative Service Delivery and Accountability

Department and Boards

- There has been a shift in roles between the Department of Health and Social Services and health and social services boards. Boards are responsible for delivering programs, while the Department is responsible for policy, monitoring and evaluation. Part of this change involves increased financial contributions to boards, which requires an effective third party accountability framework for boards and non-governmental organizations involved in delivering health and social services.
- Committee Members stated that although much of the responsibility for the delivery of health and social services has been devolved to the board and agency levels, the Government, the Department of Health and Social Services, Members of the Legislative Assembly and, most importantly, the public need to know if they are receiving value for money.

Third Party Accountability Framework and Knowledge Management Strategy

- Members of the Standing Committee on Accountability and Oversight suggested that the Government establish linkages between their Third Party Accountability Framework and their Knowledge Management Strategy (KMS). The KMS is a Government of the Northwest Territories strategy consisting of a review of information technology organization and operations within the government and boards and agencies. The Standing Committee is of the position that accurate, coordinated and well-managed information databases and communication linkages will contribute to increased effectiveness for the Department of Health and Social Services as well as improving third party accountability.

Budgeting and Evaluation

- A number of territorial boards of health and social services are in a deficit situation. At the time of the public review of the 1999 Auditor General's Report on Other Matters on April 3, 2001, the cumulative net deficit of all health and social services boards was $3,100,000. Members of the Standing Committee on Accountability and Oversight are especially concerned whether there will be an effect on the levels of programs and services available at facilities managed by boards that have incurred deficits. Further, Committee Members expressed concern that funding to boards are linked to their traditional spending patterns, rather than tied to actual program and service requirements.

- Committee Members stated that funding concerns must be linked to any Third Party Accountability Framework. Budgeting and evaluation can be enhanced with better coordination of the different information databases used by various boards and the Department. Without a uniform system, Committee Members note it is difficult to obtain accurate and timely information. The Standing Committee on Accountability and Oversight note some health and social services boards have gone entire years without an approved budget in place.

- The Auditor General also noted that the boards' inability to produce a timely budget may be compounded by the lack of a uniform accounting system. The Standing Committee on Accountability and Oversight concurred with the Auditor General and in addition, believe that a budget must be established and reviewed prior to the annual allocation of funding for each board.

- The Department of Health and Social Services budget represents almost 25% of the Government of the Northwest Territories overall spending. Committee Members stated that given our limited revenue growth, program and service demands in other areas such as education and housing, and an increasing accumulated debt, responsible budgeting and evaluation and an effective Third Party Accountability Framework become increasingly important.

The Standing Committee on Accountability and Oversight is of the position that the budgeting, funding, and evaluation, as well as the delivery of programs and services, are a shared responsibility between the Department and its boards of health and social services. The Committee noted that the boards and the Department do not operate in isolation.

- The Standing Committee on Accountability and Oversight further notes, that ultimately, the Government of the Northwest Territories is accountable for the financial health of the Department and its boards of health and social services; and at the end of the day, the territorial Government is responsible for the delivery of health and social services to the people of the Northwest Territories.

Use of Consultants

- The Standing Committee on Accountability and Oversight expressed concern over the number of consultants procured by the Department of Health and Social Services. Committee Members stated that various consultants through previous Governments and department administrations have studied the same problems repeatedly. The Standing Committee would like to see less examination of the problems and more implementation of recommendations from previous studies. The problems and solutions have not changed, just their relative magnitude. While the Department waits for the results of its most current consultation effort, life goes on. In many cases, these consultation projects have been sole-sourced to southern contractors, even though in some cases, northern consultants are available. In short, the Standing Committee on Accountability and Oversight would like to see more concrete results rather than more consultants' reports.

Northwest Territories Development Corporation

New Management

- The Standing Committee noted that the NWT Development Corporation ("DevCorp") underwent a complete turnover of senior management in April 1999. The investment decisions referred to in this and the Auditor General's report were all made by the previous management.

  The Committee Members recognize efforts by the current management to rectify problems at the DevCorp and acknowledge that most of the difficulties were due to the previous management. As a result, the Standing Committee on Accountability and

Oversight encourages the Northwest Territories Development Corporation to continue vigilant efforts to resolve existing difficulties and deliver its mandate.

Subsidiaries

- The Auditor General's Office noted that the current management had also inherited some subsidiaries from the old Department of Economic Development and Tourism and the original Development Corporation. The Auditor General added that the current management is trying to maintain those original businesses, while at the same time trying to develop new ones.

  The Committee Members noted the DevCorp originally had a number of social objectives, such as investment in high-risk ventures, and job creation in small, remote communities and regions.

  Committee Members suggested that subsidiaries with social objectives, should be measured differently than those subsidiaries with strictly business objectives. This would improve the accountability process.

- The Committee added that if management and technical assistance programs and services were readily available to DevCorp businesses, it would likely result in a greater number of financially successful subsidiaries. Under the current DevCorp structure, once financial subsidies are transferred to their respective subsidiaries, the Government's responsibilities are considered concluded.

Role of DevCorp

- Committee Members and Mr. Fred Koe, President of the Northwest Territories Development Corporation, discussed the role of the DevCorp at length. In the end, the Standing Committee agreed that until the Government's initiative to examine the potential for combining the Northwest Territories Business Credit Corporation (BCC), the Business Development Fund (BDF) and the Northwest Territories Development Corporation is concluded, it would not be appropriate to recommend structural change. The Committee expects to be briefed by the Government as soon as the study is concluded.

Conclusion

- The Standing Committee on Accountability and Oversight requests that the Executive Council table a comprehensive response to this report within 120 days in accordance with Rule 93(5) of the Rules of the Legislative Assembly.

Guide to Appendices

Appendix A

- Appendix A of this report is the Standing Committee on Accountability and Oversight's follow-up to their review of the Report of the Auditor General to the Northwest Territories Legislative Assembly for the Years 1997 and 1998.

- Recommendations arising from the Committee's review of the 1997/1998 Auditor General's Report are listed along with their respective Government responses. The Committee, as part of its follow-up process, made subsequent recommendations when the government response was not adequate.

- The Standing Committee expects the Government to follow-up on all recommendations in this report, including the subsequent recommendations outlined in Appendix A. Furthermore, we expect the Government responses to provide the Committee with action plans incorporating benchmarks and performance indicators as well as regular progress reports on the action plans.

Appendix B and C

- The Standing Committee requested several information items from the Government to better assist Committee Members with its evaluation of the Auditor General's report for 1999. The information items are listed in Appendix B.

- Appendix C is an interjurisdictional survey of tabling dates for the 1999-2000 Public Accounts in most other jurisdictions across Canada, and serves as additional reference material for Exhibit 1.0 on page 2 of this report.

Appendix A

Follow-up to the Review of the 1997 and 1998 Auditor General's Report

Background

- The Standing Committee on Accountability and Oversight reviewed the Report of the Auditor General on Other Matters for the Years 1997 and 1998 from September 26 through 28, 2000. The Committee made several recommendations to the Government based on its review of that report. The Government considered the Committee's recommendations and submitted responses.

- The Committee's recommendations arising from its review of the 1997 and 1998 Auditor General's Report are listed below, along with their respective Government responses. As part of its regular follow-up process, subsequent recommendations were made by the Committee where the Government response received was not sufficient to meet the initial recommendation. The Standing Committee expects the Government to follow-up on all recommendations in this report, including the subsequent recommendations outlined below.

Recommendations, Responses and Subsequent Recommendations

1. **The Standing Committee recommends that the present Financial Management Board's Record of Decision setting the limits for subsidies issued by the Northwest Territories Development Corporation be made into regulations by December 31, 2000.**

   Government Response

   The Cabinet approved the regulations for the Northwest Territories Development Corporation on December 11, 2000 and these were put into force on December 12, 2000.

   During the review, the Standing Committee also asked the DevCorp for a definition of a "job" to ensure that subsidies to subsidiaries, which are based on the number of jobs created, are accounted for properly.

In its letter of April 12, 2001, the Financial Management Board informed the Committee that it is working with the DevCorp to finalize the definition of a "job". The FMB will provide the Committee with the final definition when it is approved. FMB hopes that this will occur in early May.

Committee Comment

The Committee is still waiting for this information.

2. **The Standing Committee recommends that the *NWT Business Credit Corporation Act* be reviewed to make appropriate information on loans available to the public where such information will not jeopardize a business; and**

   Further, that the *Act* be changed to allow for information on bad debts to become public after a suitable period of time.

Government Response

The Financial Management Board has requested the Minister responsible to implement a process requiring the NWT Business Credit Corporation (BCC) to disclose non-proprietary information to the Legislative Assembly. This information may include client names and the value of any outstanding loans. As it would not be possible to enforce such a requirement retroactively, the Government stated that this policy may be applied in the future.

The BCC provides information annually in its annual report respecting loans in excess of $20,000, which are written off or forgiven. The report is tabled annually in the Legislative Assembly.

Committee Comments

As part of the follow-up process, the Standing Committee on Accountability and Oversight as part of its review of the Auditor General's Report for 1999 makes the following recommendation,

Subsequent Recommendation #1

The Minister responsible for the NWT Business Credit Corporation, implement a process that would require the NWT Business Credit Corporation to disclose non-proprietary information to the Legislative Assembly.

3. **The Standing Committee recommends that the *Financial Administration Act* be reviewed to address requirements for accountability frameworks, monitoring and tracking systems, and more tools for ensuring compliance with policies, regulations, directives and procedures.**

The Committee was concerned over the Government's inability to take effective action when a department or territorial corporation did not follow proper procedures. Ministers and their Deputy Ministers are ultimately responsible for their departments.

The Auditor General added that there are limited tools in government to ensure proper adherence to procedures.

Government Response

The Deputy Minister (DM) performance appraisals are now directly linked to their respective departmental business plans and departmental results reports. General performance provisions are contained in the DM employment contracts and require an annual performance agreement between the Premier and the DM. The result is a direct link between performance and pay.

Committee Comments

The Government's response to this recommendation was incomplete. Therefore, the Standing Committee on Accountability, as part of its review of the Auditor General's Report for 1999 makes the subsequent recommendation as part of the Committee's follow-up process:

Subsequent Recommendation #2

The Standing Committee on Accountability and Oversight expects the Government to revisit Recommendation #3 from the Standing Committee on Accountability and Oversight's Report on the Review of the Auditor General to the Legislative Assembly for the Years 1997 and 1998 and address these outstanding issues:

(a) make a commitment to review the Financial Administration Act in respect to this recommendation;
(b) address requirements for accountability frameworks, monitoring and tracking systems; and
(c) adequately address compliance issues.

4. **The Standing Committee recommends that it be a condition for all future contribution agreements to include a monitoring and reporting system to ensure compliance with GNWT objectives; and**

   Further, that the *Financial Administration Act* be reviewed to address requirements for accountability frameworks, monitoring and tracking systems, and more tools for ensuring third party compliance with GNWT objectives.

   The Committee had noted that there have been changes in the structure of Government and the methods by which it delivers its programs. The Comptroller General remarked that upwards of 50% of the territorial Government's budget is now delivered by third parties. The Standing Committee is concerned existing systems and procedures to monitor third party compliance with conditions of their contribution agreements are not adequate. Monitoring of compliance with the conditions of the contribution agreements is important to ensure that the intended results are achieved.

   In its response to the 1995 report of the Auditor General, the Financial Management Board Secretariat indicated that legislative changes to the *Financial Administration Act* may be considered in order to improve third party accountability. To date these changes have not been made.

   Government Response

   The Government replied that once its Third Party Accountability Framework is completed, it will be implemented subject to legislative requirements as applicable. Any legislative proposals would have to be prepared by October 2001.

5. **The Standing Committee recommends that the Legislative Assembly request the Auditor General for Canada conduct an independent review of Government contracting to ascertain the extent of risk to the Government.**

   Government Response

   It is up to the Auditor General whether to undertake any requested review. The Government does not know the status of the Legislative Assembly's request. Consequently, the Government's internal Audit Bureau was requested to perform a procurement review. As part of this review, an expert, Mr. Michael Asner reviewed current Government practices.

The Comptroller General for the Government stated that a study of best practices had been completed and reforms would be presented to the Financial Management Board for consideration.

Committee Comment

The Committee looks forward to receiving the Asner Report once it is completed. The Committee also expects to receive a copy of the best practices study mentioned by the Comptroller General; and a briefing on what components have been adopted by the Government.

6. **The Standing Committee recommends that the Government address the recommendations regarding environmental clean-up and related restoration costs presented in the Report of the Review of the Report of the Auditor General to the Northwest Territories Legislative Assembly for the Year Ended March 31, 1996.**

Government Response

Departments and corporations are required to give an update on their environmental liabilities. Departments that already have a program of inspection will be requested to complete site inspections by the end of 2002-2003.

Departments that do not have a program of inspection, will have until 2002-2003 to establish such a program, and an additional year to complete assessments for remedial action. However, the Government stated that this is contingent upon FMB and Standing Committees approving adequate funding.

Committee Comment

The Standing Committee continues to be concerned about the Government's outstanding environmental liabilities and in the interest of accountability, will continue to pursue this issue with the Government.

7. **The Standing Committee recommends that the Government develop an action plan for presentation to the Standing Committee on Accountability and Oversight, that deals with the recommendations raised in the Report of the Auditor General to the Legislative Assembly for the Years 1997 and 1998 and the recommendations in this report; and**

Further, that the action plan contains benchmarks, an accountability framework and firm timelines.

Government Response

The Government's March 6, 2001 document, Comprehensive Response to Committee Report 4-14 (3) addresses this motion and provides timelines where they have been established.

Committee Comments

The Standing Committee, as part of its review of the Auditor General's Report for 1999 makes the subsequent recommendation as part of the Committee's follow-up process:

Subsequent Recommendation #3

The Standing Committee on Accountability and Oversight recommends that the Government identify action plans, benchmarks and firm timelines in its management responses to all recommendations raised in subsequent reports of the Auditor General.

Appendix B

Bring Forward List From the Review of The 1999 Auditor General's Report

Bring Forward List

- During its review of the Auditor General's Report for 1999, the Standing Committee on Accountability and Oversight requested the following information items from the Government:

    (a) Guidelines for decision making for negotiated contracts.

    The current guidelines for the use of negotiated contracts were provided:

    1. "Guidelines for Submissions Recommending Negotiated Contracts"; and
    2. "Decision Inputs and Disclosure Requirements for Negotiated Contracts".

    The development of a formal policy on negotiated contracts is currently underway.

    (b) Statistics on the types of contracts used including: total dollar amounts awarded under each contract type and how often each contract type is used.

    Received.

    (c) A copy of the BIP review when completed.

    The responsible department, the Department of Resources, Wildlife and Economic Development (RWED), will provide the Committee with a copy of the report once it is completed. The Department expects the final report to be submitted by mid-May and a summary of the comments received will be posted on the RWED website.

    (d) Schedule of stakeholder consultations by BIP review group.

    Received.

(e) Instances when DevCorp exceeded established limits for operating subsidies; and
(f) Rationale for Arctic DevCorp increasing $10,000 maximum operating subsidy per annum to $25,000.

Received.

(g) Rationale for Aurora College adopting June 30 as their year-end.

Awaiting response.

(h) Update on Cuff Report.

Received.

Other Information

Public Accounts

- The Secretary of the Financial Management Board in his April 12, 2001 letter to the Committee advised that:

> "We have resumed discussions with officials from our consolidated entities and the Office of the Auditor General regarding possible ways of shortening the time required to complete the GNWT's annual audited financial statements.
>
> We will report back to the committee once any decisions have been made on changing the existing process."

Appendix C

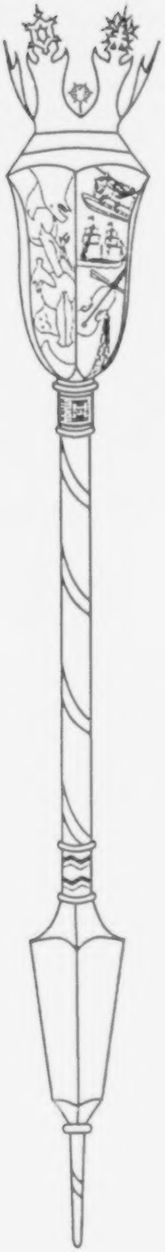
Tabling Dates of 1999-2000 Public Accounts

Interjurisdictional Survey
Tabling Dates of 1999-2000 Public Accounts

Jurisdiction	Date Tabled[1]
Northwest Territories[2]	27-Feb-01
Nunavut[2]	Not tabled yet.
Yukon	30-Oct-00
British Columbia[2]	Not tabled yet.
Alberta	Departments table individually.
Saskatchewan	Vol. 1: 25-July-00 Vol. 2: 27-July-00
Manitoba	20-April-00
Ontario	15-Oct-00
New Brunswick	Not formally tabled.
Nova Scotia[2]	Vol. 1 & 2: 14-Dec-00 Supplementary: 04-Apr-01
Prince Edward Island[2]	vol. 1: 20-Dec-00 vol. 2: 23-March-01
Newfoundland	06-Dec-00

Notes:

1. Information accurate as of June 4, 2001.
2. Jurisdictions that filed their Public Accounts in its entirety later than the Northwest Territories (February 27, 2001) were Prince Edward Island (March 23, 2001), Nunavut (not tabled yet), Nova Scotia (April 4, 2001) and British Columbia (not tabled yet).



Northwest Territories Legislative Assembly

Standing Committee on Accountability and Oversight

Public Review of the Auditor General's Report
on Other Matters
Tuesday, April 3, 2001

Public Review

Standing Committee on Accountability and Oversight

Chairman

Mr. Charles Dent, MLA for Frame Lake

Deputy Chair

Mr. Floyd Roland, MLA for Inuvik Boot Lake

Members

Mr. Brendan Bell
MLA for Yellowknife South

Mr. Bill Braden
MLA for Great Slave

Mr. Paul Delorey
MLA for Hay River North

Mr. David Krutko
MLA for Mackenzie Delta

Mr. Steven Nitah
MLA for Tu Nedhe

Ms. Sandy Lee
MLA for Range Lake

Mr. Michael McLeod
MLA for Deh Cho

Mr. Michael Miltenberger
MLA for Thebacha

Mr. Leon Lafferty
MLA for North Slave

Witnesses

Mr. Lew Voytilla, Office of the Comptroller General

Mr. Kelsey Scott, Analyst, Financial Management Board Secretariat

Mr. Ron Thompson, Office of the Auditor General

Mr. Shawn Vincent, Office of the Auditor General

Mr. Roger Simpson, Office of the Auditor General

Ms. Debbie Delancey, Associate Deputy Minister, Health and Social Services

Mr. Warren St. Germaine, Director of Corporate Services, Health and Social Services

Mr. Fred Koe, Northwest Territories Development Corporation

Legislative Assembly Staff

Mr. Dave Inch, Clerk of Committees

Mr. Doug Pon, Committee Researcher

Ms. Jacqueline McLean, AOC Committee Coordinator

Table of Contents

Public Review of the Auditor General's Report on Other Matters 1

- Review of Government's Response to Committee Report 4-14(3) 1
- Opening Comments by Mr. Voytilla 15
- Chapter by Chapter Review of the Auditor General's Report 28
  - Chapter 1: Compliance with Authority and Public Accounts 28
  - Chapter 2: Public/Private Partnerships 31
  - Chapter 3: Health and Social Services: Alternative Service Delivery and Accountability 36
  - Chapter 4: Northwest Territories Development Corporation 49

STANDING COMMITTEE ON ACCOUNTABILITY AND OVERSIGHT

Public Review of the Auditor General's Report on Other Matters

Tuesday, April 3, 2001

9:00 a.m.

CHAIRMAN (Mr. Dent): I will call the meeting back to order. We are on item 8, the public review of the Auditor General's Report on Other Matters. I would like to welcome Mr. Lew Voytilla, who is the Secretary to the FMB to our meeting this morning. Just for the record, we will go around the table and make sure we know everybody who is here. With Lew Voytilla is Kelsey Scott, also from the FMBS. We have Michael Miltenberger and Brendan Bell from the committee. Dave Inch is the committee clerk. I am the Chair, Charles Dent, and we have Mr. Doug Pon who is from Research, Jacqueline McLean who is the Committee Assistant. We have Sandy Lee, a member of the committee, Bill Braden, Floyd Roland, Paul Delorey, Shawn Vincent from the Office of the Auditor General, Mr. Ron Thompson from he Office of the Auditor General and Mr. Roger Simpson from the Office of the Auditor General. We will also have joining us immediately I believe, Mr. Michael McLeod.

Review of Government's Response to Committee Report 4-14(3)

Mr. Voytilla, what we thought, first of all, is to review the response that the government gave us to our last committee report, to sort of get into issues before we start to actually get into the report of the Auditor General. There were a number of responses to committee motions that we had, and some of the issues that were raised there we felt deserved a little bit more clarification just to make sure that we knew where we were with the government's response before we get into this.

The first two motions from our committee report dealt with the DevCorp and the Business Credit Corporation. There will not be a lot of follow up on those, but there is some interest in knowing because the DevCorp now has put everything in regulations. There is the Financial Management Board's acceptance of those regulations; are they seen as being the sort of regulations that were expected? Are there any definitions, for instance, of what a job is now? We were not provided with anything that looks like a definition of a job. The concern arises from - in the past the definition of a job had been stated as a full-time position that paid a salary of $9,000. If that is still the definition, and the subsidy can be $25,000 a year, it would sound like the DevCorp is getting almost a gift. They can justify a job that paid $9,000 and give a company a $25,000 subsidy. Has there been a definition? Maybe you could just talk briefly about the regulations and how the Financial Management Board sees that, please.

MR. VOYTILLA: Thank you, Mr. Chairman. The regulations were approved by the Financial Management Board, so they are now in place. The level of subsidy, though, has gone from the earlier level of $10,000, which was somewhat dated and at the time was done without any particular reference point or experience. It was done when we first set up the DevCorp. The analysis that the Development Corporation presented and the argument they presented convinced the FMB that the level of subsidy was more appropriate at $25,000 per job.

As far as the definition of a job is concerned, we do have now a much more comprehensive definition that is in the works. We have reviewed it several times, and I think we are generally 95 percent of the way there. There is an outstanding concern with cottage workers and how you equate a job in the cottage industry to a definition that will work with the $25,000 subsidy level. There is still a little bit of tooing and frowing on the care of cottage workers, but generally with that exception there is agreement now with the definition of a job and that will be something we will be able to provide to the committee, we hope, in the very near future, within weeks. .

CHAIRMAN (Mr. Dent): We shall be watching for that. Are there any other questions on this issue from committee members? Mr. Roland.

MR. ROLAND: Mr. Chairman, another area of the regulations was the investment limit, was that part of this regulation-setting exercise - I believe it is up to $100,000 now per job created in investment? Could we have the detail on that?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: The $100,000 investment limit at this point in time is unchanged, so that is the limit that has been adopted.

CHAIRMAN (Mr. Dent): Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. In this whole area again looking at subsidies and job creation, was there any discussion or looking at the fact, and this is something I will be asking Mr. Koe as well, that when you look at the overall portfolio and the investments made by this government - I think it is $2.9 million in losses to $3.5 million investment - we are not looking very good in that aspect. How far can we go, and how far is this government prepared to go, in subsidizing job creation?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: There are definitely policy overtones to that question, Mr. Chairman, but I will answer what aspect of it I think I can. I would note that the loss of $2.9 million was largely attributable to one of the enterprises, so it is not that all of the enterprises are performing that badly. We had one that just stood out as an excessive loss or subsidy. With respect to the overall philosophy of investment, that is not something that I feel competent to speak on today. I think that is something Mr. Koe could address, and subsequently that might be an area you would want to explore with the appropriate Minister.

CHAIRMAN (Mr. Dent): Thank you. For the record, Mr. Krutko has joined the committee now. Are there any other questions on this?

We will move on to the government response to committee motions 31-14(3) and 32-14(3). Do committee members have any questions for Mr. Voytilla here? Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. On the issue of third party accountability framework, I was wondering if Mr. Voytilla could elaborate on how this is going and whether there would be a tie-in to the work that Health and Social Services is doing on their accountability framework, and the work that Education, Culture and Employment has done, to try to set up a similar accountability framework to deal with third party issues, so there is a broad government framework for this particular critical area? Thank you.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. Just the status of the work - the McLeod Institute has been on the job, working with an interdepartmental steering committee. They have completed their ligature review section of the contract, which means going out and looking at best practices, looking at current academic and state of the art thinking with respect to third party accountabilities to see what we can learn and what norms are developing so that we are not re-inventing the wheel, and that we are taking advantage of the work that others have done already. That part of it has been done, and they have reported on that to the committee.

They have also set up a number of focus sessions with representation from across the territories of individuals representing third parties, municipalities, NGOs, boards and agencies, and those focus sessions are starting, I think, next week. There is one in Fort Simpson, I think they are doing one in Inuvik, and a couple of other locations, trying to get a cross section of third parties involved to give us some idea from their standpoint of what would work and what is appropriate. We do have to take into account the impact of any accountability demands on the parties that we are funding and their ability and capacity to respond to any particular set of accountability requirements.

The third part of the project that I should also mention is that the McLeod Institute has largely completed their internal interviewing, which is getting input from both within the bureaucracy as well as key local leaders. I think they will soon be submitting the summary of their findings in that regard. The work is proceeding well, and I think they are pretty much on target to have a report to us within the next three to four weeks.

With respect to linking to the work that Health and Social Services is doing through the Cuff Review, the two initiatives are exchanging ideas and thoughts. The representatives from the McLeod Institute have either met with Mr. Cuff already or are meeting with him in the next week or two to exchange notes. There is also a significant overlap between the internal working committee, if you will, that is advising Health and Social Services on the Cuff Review and the steering committee that is working on overseeing the third party accountability framework. There is a fair amount of cross-fertilization. I sit on both committees. Ms. Delancy from Health and Social Services sits on both committees, as does Ms. Ballantyne and Mr. Cleveland, so there is a fair bit of cross-fertilization that way, as well as directly with the two consultants who are doing the work.

It is a process that we think we have established links on. And, of course, by having Education, Culture and Employment on both the steering committee and deeply involved in the selection of the participants in the focus groups and in the actual work, we do think their requirements are being taken into account as well. We are hoping that we will get, within the next three or four weeks, a fairly good document that takes those other factors into account.

CHAIRMAN (Mr. Dent): Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. Could Mr. Voytilla speak a bit further? He said, for example, that the Cuff Review was exchanging thoughts and notes with the McLeod people here. What does that mean in a substantive way? One of the other issues related to this is, of course, the kind of information systems that you do have, and if you are going to have an accountability framework that is going to be based on access to good information.

Right now it is seems clear, at least on the outside, for example when they say that it is capacity issue according to the Minister, it seems to be more of a trust issue to my mind. We have four of the biggest health boards that have no budgets for the year because they cannot agree on the figures. Would this address that particular issue, or at least tie into the work that is being done? Is there a tie in with the Knowledge Management Review which speaks to the broader issue of all these information systems and the linkage that should be there, but clearly is not yet? Thank you.

CHAIRMAN (Mr. Dent): Thank you. Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. The formal linkages between Cuff and the McLeod Institute are through the exchange of findings and observations. The Cuff Review at this point in time is still in the process of undertaking their research, they are not done yet. They are starting to form some, what I would call observations. I would not even at this point in time describe them as findings. As they are going through that, they are intending to exchange information and observations with the McLeod Institute people, who are really at the same stage. They are still in the process of doing their research, conducting the focus groups, getting input and assessing the situation. So that exchange at this point in time is there, but it is an exchange of observations and information that they have both gleaned. We will keep the two processes linked and we will keep them consistent because I think it would be incumbent on us to do so. We would not want two different conclusions coming out of two reviews that clearly have some level of overlap.

With respect to knowledge management, knowledge management looks at the entire way we generate and use information and knowledge throughout the organization, so clearly it has to touch upon the ability to obtain that information from agencies and others who are delivering programs on behalf of the government. Yes, there is a direct linkage into the Knowledge Management Strategy. Can I give the Member assurances at this point in time that there will be, at the end of the day, a concrete plan as to how to make sure that the boards and agencies and NGOs are able to give us that information, I would say that between the three exercises, yes. It is certainly a focus on our part. We are extremely concerned with getting good information out of our boards and frustrated by our inability to do so, and it is not necessarily an issue of willingness or cooperation. It very much looks like it is emerging as an issue of capacity, standards and consistency, and those I think will be issues that our action plan coming out of the three reviews is going to have to address head-on.

CHAIRMAN (Mr. Dent): Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I guess this is an issue of more a political debate or maybe it is not, it is a technical debate of capacity. Or are there other problems, for example, with Health and Social Services that have precluded the department and the four boards from coming to an agreement? The Finance person indicated that they were getting all the information, but they just do not understand it. They are complying with the processes, the variance reports, the budgeting processes, but they do not understand it, which I interpret to mean that they do not really think that the figures are there, there is something amiss which they are not happy with.

My question though is with respect to Education. Education has spent a considerable amount of time developing their own accountability framework, which I think is now in place. Will that as well be brought under this umbrella and looked at when you do this broad third party framework? Thank you.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: The simple answer, Mr. Chairman, is yes. We are looking at all accountability relationships that exist because that will inform the process. We will have to assess those existing situations to see where there are gaps and where there can be improvements, but yes, they would certainly be taken into account in the review.

CHAIRMAN (Mr. Dent): Mr. Voytilla, just a question on the timing. When do you expect this framework will be ready?

MR. VOYTILLA: Thank you, Mr. Chairman. We expect that once the focus groups are finished the report of the McLeod Institute will follow soon after. I think I mentioned three to four weeks from now. That might be a little optimistic, but I am sure the due date on the contract is by mid-May, with any legislative changes necessary. There is a whole process that we cannot speak to the timing, and presume when the Legislature will deal with any legislative proposals or legislative changes that come out of that. Certainly our intent is to get the work by the McLeod Institute finished this spring.

CHAIRMAN (Mr. Dent): Mr. Voytilla, I have noted the comment about legislative change here. One of the reasons we brought forward the motion was that the committee had heard from you that the government did not have the tools often to enforce the accountability that was felt to be necessary. This sounds like, when you talk about "may require legislative change" - I think last year the committee was fairly convinced that we had heard government witnesses say that changes to the FAA would be required in order to improve accountability. Is that no longer the position? You think that perhaps just an accountability framework will be enough? Is that why the language has been softened here? Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. I hesitate to presume the outcomes of the study, but I would not to in any way, shape or form rule out the necessity for legislative change. There could very well be recommendations coming out of the McLeod Review and the Cuff Review that speak to the necessity for some legislative change. Those reviews are not done, and we do not know where the recommendations will lead. I would not rule out the necessity for legislative change.

CHAIRMAN (Mr. Dent): One other issue is, just putting in place a framework is not going to automatically mean that there is any follow up on it. Is the whole plan here to develop the process for follow up? In other words, how do we ensure that there is actually monitoring taking place even after you have all the parties signed off on a framework and you have the accountability issues set up front? How do we ensure that things get followed up on after the fact? Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, we certainly do not want to see two reviews that are addressing these issues not get acted on or implemented, so an integral part of the process will be an action plan that we can then seek support for and resourcing if that is required, and move the agenda forward.

CHAIRMAN (Mr. Dent): Thank you. Are there any other questions on these motions? Mr. Krutko.

MR. KRUTKO: Thank you, Mr. Chairman. On the implementation of the McLeod report, will that be part and parcel of the report? Will they suggest ways of implementing certain recommendations that might come forth? I have certainly seen a lot of reports and studies, and at the end of it all it is just another report. There is no avenue of implementing, or no one to implement it, or no one really understands it except the author of the report. In a lot of cases there has to be some initiative or some means of having some good ideas, but how do you implement those ideas and put them into action? If you are talking about having something in May, realistically will you be ready to go by October?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, the target is to have the McLeod Review done this spring. We would intend that that would have an action plan associated with it, if not specifically done by the McLeod Institute, certainly by the steering committee that is overseeing the work. Our intent would be to move forward then on implementing the recommendations once those recommendations have been accepted by the Financial Management Board and Cabinet as required, once any potential legislative changes have been reviewed by committees and endorsed. We will have an action plan, but I think it would be presumptuous to say that we will just strike out right away and implement it. We have approval processes to go through that involve this committee as well as Cabinet and the Financial Management Board, and we would want to make sure that we have general support from all the stakeholders in the process. As I said, we will have a set of recommendations and proposed actions, but then we do have to go through and make sure that we have the proper approvals to implement it.

CHAIRMAN (Mr. Dent): Mr. Krutko.

MR. KRUTKO: Just following up with regard to the theory of establishing legislation or making some changes to the Financial Administration Act, some 70 percent of the operations and maintenance budget for Health for health centres and whatnot goes to boards and agencies. My concern is that they are not elected, and also the whole accountability question comes into play of who are they exactly accountable to? I think there has to be amendments made to the Financial Administration Act to legislate them and make them accountable. They way it is right now, technically they only account to themselves as a board because they are not elected, they are appointed. I think that is something that has to be looked at also.

I feel that we have to establish legislation or amend the Financial Administration Act to bring them in line with the accountability process, like the budget process we go through every year with regard to way budgets are being expended or over-expended. There have to be rules in place so that people understand what the rules are and how much room and flexibility they have when they spend their budgets.

CHAIRMAN (Mr. Dent): Mr. Voytilla, would you care to respond?

MR. VOYTILLA: Those are good comments, Mr. Chairman, and as I mentioned earlier I certainly would not rule out at this point in time the necessity for legislative change to implement an appropriate accountability framework. We look for the details of any such changes to come out of these meetings.

CHAIRMAN (Mr. Dent): Thank you. The next issue is motion 33, which was a request to have the Auditor General conduct an independent review of government contracting. The government's response has offered up the Asner report as a proxy for that request. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I have a question with regard to the negotiated sole source contracts. Could Mr. Voytilla indicate if that is on the rise, say going back three or four years, and is that if you go sole source or negotiated contract you can basically bypass the contracting guidelines? It seems to be, at least in some key areas, the use of sole source contracts when the government wants to move expeditiously. I am interested to know if there is an increasing use of sole sourcing or negotiated contracts over the last few years. Thank you.

CHAIRMAN (Mr. Dent): Thank you. Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, I do not have the actual statistics readily available. Certainly we can compile those for the Members. We do publish this information in our Contract Payments Report, so it is available. I just have not gone through the last three or four years to compile the data that the Member is referring to. We can do that. Until I have that compiled, I would not want to speculate whether they have gone up or down. I am not aware of any specific trend, but we can pull the numbers together and maybe that will let me respond more thoroughly to the Member. .

CHAIRMAN (Mr. Dent): Okay, if you would not mind responding to the committee and we will make sure that all Members get a copy of that response. Mr. Miltenberger.

MR. MILTENBERGER: Would those type of contracts be bound by the same kind of due diligence and process that is required in the general course of events for government contracting?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Negotiated contracts, of course, require specific Cabinet approval because the authority for negotiating a contract is only given to Cabinet under the contract regulations where the Cabinet exercises their prerogative. Cabinet has adopted a set of decision guidelines with respect to negotiated contracts that lays out the considerations that they feel must be taken into account in any decision-making relative to a negotiated contract, and those guidelines, I think, have already been made available to the committee. If they have not, or if you would like me to provide them to you, I undertake to do that . There are clear decision making guidelines as to what Cabinet considers when reviewing a proposal for a negotiated contract, so that exists. Negotiated contracts are not reviewed and approved without an appropriate framework.

With respect to sole source contracts, these are only allowed in very specific circumstances, and those circumstances are laid out in the contract regulations. Any contracting authority entering into a sole source contract is obligated to document the reasons for the sole source arrangement, and defend those against the provisions that are in the regulations that allow for sole sourcing. There are guidelines to that effect, and those guidelines do require justification for sole sourcing.

In our contract report, we have spent some time over the last few years clarifying the definition of sole source, because in many cases we found that we were recording utility payments as sole source contracts. In point of fact, it is a franchise or a monopoly, and you do not have a choice of who you buy your utilities from in most cases. Those are really inappropriate to designate as sole source, but they were not tendered either, so we had to actually look at a new category for those kinds of payments. I think we have called them franchise payments.

There are similar situations with airline tickets. In essence when you buy a ticket, it is a contract. If you followed the contract regulations per se, you would tender your scheduled travel. That is impractical, so for practical purposes those are not sole source either, yet by point of fact we do sole source airline travel all the time. We are looking at our definition because to apply the contract regulations in a practical way and make sure that we are focusing on true sole source contracts, we want to improve our reporting to you, so that those instances of sole source are clearly identified.

CHAIRMAN (Mr. Dent): Thank you, Mr. Voytilla. One point there, earlier on in your response you offered to provide the committee with the negotiated contract guidelines for decision making. In checking with our staff, they do not believe that we have, in fact, received those in the past, so perhaps I could ask you to follow up on providing those to committee. We would appreciate it.

MR. VOYTILLA: We certainly will.

CHAIRMAN (Mr. Dent): Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. Could Mr. Voytilla indicate as well - I note the reference made to the decision paper regarding consultation on recommendations - is the intent to accept the Asner Report's six major recommendations? If that is the case, I would be interested to hear you speak a bit about this small central procurement group and what that could possibly mean. We are not talking about re-inflating government services are we? Thank you.

CHAIRMAN (Mr. Dent): Thank you. Mr. Voytilla.

MR. VOYTILLA: We do not yet have that item considered by the Financial Management Board, but it is a pending item on the agenda. With respect to the small central procurement group, there was a recommendation in the Asner Report, and in our procurement audit done by our internal audit bureau that spoke to the need for some coordination on purchasing. This pertained specifically to where there were opportunities for the government to take advantage of its volume purchasing to elicit a better price.

It is very difficult for 16 different departments to coordinate their purchasing of a particular commodity, so the recommendation here was that there would be a small central procurement group that could coordinate those kinds of acquisitions. It would not be a large group and it would not have an authority base, it would have a role of working with departments to combine requirements and go out to the market on a bulk basis to get the best price.

This group would also be a repository of some expertise on purchasing. If departments found themselves in a complex acquisition, they could call upon this group to give them some technical expertise that may not be resident in the department because of the infrequency with which they might do some of these large cyclical purchases. That is the intent. Likely it would be housed in Public Works and Services. It would not be a large group and it would not be a recentralization of purchasing control. It would be more of providing a mechanism for coordinating purchasing on specific commodities.

CHAIRMAN (Mr. Dent): Thank you. Mr. Miltenberger, final supplementary.

MR. MILTENBERGER: Thank you, Mr. Chairman. My question would be on tie in, as we discussed, for example, with third party accountability frameworks. What would be the tie in with the various boards and agencies considering that they spend, I think the number was about 46 percent of the total government budget. I am not sure if that would include municipalities, but boards and agencies like health boards and divisional boards and such that have significant parts of the budget. Would they as well be tied into this as part of the deal for spending all this money? Thank you.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Conceptually, yes. The boards, as the Member pointed out, do a lot of purchasing with government funds. There is opportunity. We think, for coordinating that purchasing in specific commodity areas. I want to make it clear that we are only looking at particular commodities where there is sufficient volume of purchasing occurring to warrant central coordination. Yes, we would see that encompassing board purchasing where appropriate.

CHAIRMAN (Mr. Dent): Thank you. Mr. Bell.

MR. BELL: Thank you. I wanted to ask Mr. Voytilla specifically about trends in contracting and procurement. We spoke to this last year and discussed it a fair bit, I think, because the Auditor General's Report highlighted purchasing, and last year indicated that the fiscal years 1995-96, 1996-97 and 1997-98, those three in a row, it looked as if there was a decline of northern approved contractors being used. We debated a bit whether or not this was a trend, and I know we were looking at best practices. My question again - Mr. Miltenberger has already asked most of this question - is whether we can get a look at trends to current in all of these areas of sole sourcing, negotiated contracts and use of northern contractors.

Last year, Mr. Voytilla, you did indicate that you did not have the data compiled at that time, but that you were going to undertake to get it to the committee forth with. You specifically said that "we do have the raw information, it will not take us very long to compile it and get it to you". We are very concerned about these trends which we saw as disturbing, and I do not think that we ever received that information in the form we were looking for, or maybe indeed in any form. I wonder if you recall giving the information to the committee and I may have missed it. Thank you.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Not specifically. We do, of course, table the Contract Payments Report regularly, and I know we have been doing that. If we have missed a commitment to the committee, I would offer my apologies, and ensure that we correct the oversight. .

CHAIRMAN (Mr. Dent): Thank you. We will watch for that information. Mr. Bell.

MR. BELL: Thank you. I would like to maybe suggest that we make a request in writing so that we can specifically ask for detailed information, breakdown by dollars and percentages, the kinds of things we are looking for, so that it would be easier for the department to answer the request specifically and there will not be any more confusion. If that would be agreeable to committee.

CHAIRMAN (Mr. Dent): I do not think that would be a problem. If you like, we will get the staff to follow that up in writing. Mr. Delorey.

MR. DELOREY: Thank you, Mr. Chairman. I have one question on the discussion paper that recommended that RWED do a wide consultation with a variety of businesses and aboriginal organizations with regard to the Business Incentive Policy, and the Minister was to report back to the Executive Council no later than March 31, 2001. Would Mr. Voytilla know if, in fact, that has been done?

CHAIRMAN (Mr. Dent): Mr. Voytilla, are you aware as to whether or not the Minister met that - it says here "must" report back not later than. Was that timetable met?

MR. VOYTILLA: Mr. Chairman, no that timetable was not met, but I am pleased to report that there is a discussion paper out, and it has been out for several months. There are consultation sessions being held throughout the Northwest Territories. I know they have a pretty intensive schedule for consultation and have already held numerous ones and plan to hold quite a few more. As soon as that consultation is completed, I know the intent is to bring back the results of the consultations to Cabinet. There will probably at least, I would think, eight weeks of slippage in that schedule. I would have to check with Mr. Bob McLeod, the deputy minister of RWED, to confirm exactly the revised schedule they have for bringing something back to Cabinet.

CHAIRMAN (Mr. Dent): Thank you. Since this was in response to the committee, if you would not mind, we would appreciate your following up and making sure that we are provided officially with the change in this response. Mr. Krutko. .

MR. KRUTKO: With regard to the review that was done, I wonder if they looked at the different claims obligations through participation agreements, economic measures. They talked about looking at claims policies that are there to try to give groups more independence and self-determination, especially through claims agreements. Was that also looked at with regard to this review?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, that is an aspect of the review. The considerations are going into the review, and as required under many of those agreements, consultation on economic policy change is required, and that is part of the consultation process that is going on right now.

CHAIRMAN (Mr. Dent): Thank you. Mr. Krutko.

MR. KRUTKO: With regard to that requirement, is the consultation actually sit-downs with the various groups that have that obligation spelt out through their claims agreement before making any amendments to any policy, or preferential policies, there has to be consultation. I do not mean consultation in the context of a telephone call, but actually sitting down and having a thorough review of the policies, and also suggestions for replacing policies or having the ability to have meaningful input into the process.

A lot of times we hear about consultation, but consultation means different things to different people. I would like to know exactly what method is being used in the case of the reviews with the First Nations groups who have that obligation spelt out in their agreements.

CHAIRMAN (Mr. Dent): Mr. Krutko, I do not know if this question would not be better directed to the deputy of RWED, or the Minister of RWED. I do not know, Mr. Voytilla, if you are aware of the answer. You are welcome to try to respond, but this is not his area of responsibility. Mr. Voytilla.

MR. VOYTILLA: *Mr. Chairman, my understanding of the consultation process*, which FMBS staff are participating in, is that we are actually going out to the regions and to the specific stakeholders and making the presentation on the discussion paper, and trying to engage in direct sit-down discussion with the various groups. That is my understanding, and certainly what I will undertake to do is provide the committee with the schedule of consultation that has been developed by RWED for the consultation on the BIP review.

CHAIRMAN (Mr. Dent): Thank you very much. Mr. Krutko.

MR. KRUTKO: One more question. When they were looking at the different policies and whatnot, they based it on Alaska and Nova Scotia. Why Alaska and Nova Scotia? Did they do a thorough review of other jurisdictions, or did they just pick those two for what particular reason?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, I am not aware that there was a focus on any particular external jurisdiction. The discussion paper speaks much more broadly to the issues. I do know that the working group who did some of the preparation work on the discussion paper did look at practices in other jurisdictions, particularly Yukon and some others. There was, if you will, a jurisdictional component to the review, but I was not aware that there was any particular focus on either Nova Scotia or Alaska.

CHAIRMAN (Mr. Dent): Mr. Krutko.

MR. KRUTKO: Thank you, Mr. Chairman. I was just looking at point number one, the second last sentence, where it says that the Alaska and Nova Scotia examples of a single policy statement that provides an overall direction.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. I was speaking to the BIP process, and I believe the Member is referring to the comment about the Asner Report, which was part of the procurement review. I would note that the Asner Report addressed best practices across North America and happened to pick Alaska and Nova Scotia as having good examples of jurisdictions that had a clear policy statement on procurement. I can assure the Member that, with respect to the Asner Report and the review that occurred under that process, every jurisdiction in North America was looked at.

CHAIRMAN (Mr. Dent): Thank you. The next motion that we had was Motion 34-14(3) on the recommendation on environmental cleanup and restoration costs. I think we would agree that the response is a good start, but we would encourage that this be continued and given some emphasis in the future. Are there any other issues from this government response that Members wish to raise right now? *Mr. Bell.*

MR. BELL: Thank you. I just wanted to get back to Motion 29-14(3) in the report, the recommendation to transfer the DevCorp subsidy limits to regulations and speak to the subsidy limits which were capped at $10,000. I understand that if an exemption was deemed to be required by the DevCorp, they had the ability to come forward and make a presentation to FMBS indicating why they felt the $10,000 was not relevant in this case. I am wondering, in Mr. Voytilla's recollection, how many times in, say, the last two years, the DevCorp came forward and said that the $10,000 was not sufficient and needed to make an exemption in that particular case?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: What I would undertake to do, Mr. Chairman, is verify our recollection, but our joint recollection between Mr. Scott and I is that there has been definitely one situation where they came for an exemption on a retroactive basis. We think there was one other case on a proactive basis, based on their last business plan, but we would undertake to get back to the committee to confirm that, and we will do that in writing.

CHAIRMAN (Mr. Dent): Thank you. Mr. Bell

MR. BELL: Thank you. I guess I would suggest that they could probably come forward retroactively in many cases to argue that they were not able to comply with the $10,000 criteria. I am interested in the proactive situation. The fact that they have only come forward once proactively says to me - if they had come forward 80 percent of the time that might be a clear indication to all of us that the $10,000 was not sufficient and maybe we needed to look at $25,000.

Last year we talked about this, and Mr. Voytilla, you indicated that you were not receiving regular reports on that measure and you had not been receiving regular reports in the past, and it was a concern and an outstanding issue, and you were working with the DevCorp to resolve it. That was about six months ago. Has the reporting become better, and better enough to make us feel comfortable in raising the limit to $25,000, and feel safe that we were doing the right thing? Thank you.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Certainly, Mr. Chairman, I would feel no hesitation in expressing the view that reporting has become better, and the working relationship with the DevCorp has gotten better. I think they are making a very concerted effort to establish benchmarks and to report against those benchmarks. Is everything in place? I think that it will take some time for them to get all of their reporting in place and functioning well, but I do think that improvements have been made and the intent of the current management is to continue to make improvements. That is the comfort I can offer.

CHAIRMAN (Mr. Dent): Mr. Bell.

MR. BELL: Was there any thought on the part of the department to have these benchmarks established and have the reporting improved, up to snuff and running smoothly for a while before raising it to $25,000? I know that you have indicated that this was a number that was established 10 years ago and was not felt to be accurate or reasonable these days. I wonder if there was any thought given to making sure that measurement is up to snuff and make sure that we cannot comply with this $10,000 before we look to say "well, we have not been reporting on jobs, there has not been much compliance, we are not even sure how much compliance there has been, but let us raise it to $25,000 and see if we can comply." I am wondering if we have thought about compliance first, raising it second. Thank you.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. I would note that the one proactive exception that I referred to, I believe, is based on the $25,000 limit. I think the analysis that the Development Corporation did, did substantiate an increase. Certainly Mr. Koe, when he appears before you, will be able to give you much more detail on the rationale and the experience that led to the conclusion that $25,000 was an appropriate level. I know that when we looked at the justification that they presented, we felt that it was warranted.

CHAIRMAN (Mr. Dent): Thank you. Are there any other questions on this, or are we prepared to get into what Mr. Voytilla thought he was coming for this morning?

Mr. Voytilla, I understand you have some opening comments, perhaps we could invite you to give us your opening comments and we can get on with reviewing your report.

Opening Comments by Mr. Voytilla

MR. VOYTILLA: Thank you, Mr. Chairman. I do have a few comments that address a number of the issues that are the subject of the Auditor General's review, so without further ado I will proceed with them.

Mr. Chairman, the 1998-99 public accounts of the Government of the Northwest Territories were the last financial statements of the territorial government before division of the Northwest Territories on March 31, 1999. The preparation of these financial statements was a monumental task involving significant incremental time and effort from the staff of the Financial Management Board Secretariat, the staff of the Department of Finance and Administration for the Government of Nunavut, and the staff of the Office of the Auditor General. Months of detailed due diligence by all three parties were required to ensure that the 1998-99 year end was the most accurate set of financial statements ever produced by the GNWT, and that the division of the component assets and liabilities was performed in strict accordance with the Agreement on Division of Assets and Liabilities between the two governments.

I wish to acknowledge the effort put forth by all staff of our government accounting section and specifically note the contribution of Mr. John Carter, our assistant comptroller general; Mr. Carl Bird, who is the director of finance and administration for the Department of the Executive; Mr. Doug Bothamley, who is our manager of financial processing; and Ms. Louise Lavoie and her financial reporting group. They did all of this extra division work without incremental resources and deserve and have received commendation for that.

Mr. Chairman, it was no surprise that this historic and largely unprecedented process of dividing a government between two new jurisdictions would consume time and delay production of the financial statements. The Legislative Assembly was alerted to this delay in February 2000 when it was asked by motion to extend the date for tabling the 1998-99 public accounts to June 2000. I am pleased to note that we are back to normal timing. The 1999-2000 Interim Financial Statements were produced on time and tabled in the Fall 20000 session, and the 1999-2000 audited public accounts were tabled in February 2001.

I have noted the suggestion by the Auditor General that the annual public accounts be tabled sooner than the winter session following year end close. As the only tabling alternative would be the fall session, this would involve completing not just the government's financial statements and audit three months earlier, but the financial statements and audits of all of our consolidated entities as well. Frankly, at this time I am not confident that the systems, expertise and staff resources exist in our consolidated entities to achieve this. Given that the interim financial statements are available by September 30th and that the standing committee, in its business planning and budgeting role is given fiscal updates regularly during the year, I would suggest that the extra resources and cost of earlier tabling dates be determined so that the cost benefit of this change can be measured.

The Auditor General's Office has also raised an issue of Financial Administration Act compliance with respect to how the government handled the establishment of the equal pay liability. The Auditor General has observed that not only should the government have booked the estimated liability and reported on this through the interim financial statements and the public accounts process, which it did, but that the government should also have introduced an after year end supplementary appropriation which the Legislative Assembly would have no practical option but to approve.

This is not an issue of adequate authority or disclosure, as not only was this accrued liability established in accordance with the FAA, it was disclosed through the provision of interim financial statements and tabling of the public accounts. The Minister of Finance also flagged this matter for Member's attention by cover letter. Saying that, the FAA does require this duplicative step and it was omitted.

The government has recommenced the procedure of introducing supplementary appropriations for accrued liabilities booked in the previous year which caused appropriations to be exceeded. This was the purpose of 1999-2000 Supplementary Appropriation No. 5, which was passed by the Legislative Assembly in November 2000. I would note that this procedure only applies to over-expenditures caused by booking accrued liabilities, not to over-expenditures caused by actual overspending. These latter type of over-expenditures are simply reported through the interim financial statements and public accounts. Until an opportunity to update and modernize the Financial Administration Act is available, after the fact supplementary appropriations will have to be introduced as required.

I would note that there is one area of outstanding disagreement between the Auditor General's Office and myself respecting interpretation of the FAA. This disagreement pertains to sections 36(1) and 36(2) which read:

> *36.(1) The Comptroller General shall ensure that the amount of a liability referred to in paragraph 35(a) is accurate and that it is charged to an appropriation as an expenditure for that fiscal year, notwithstanding that the liability will be discharged in a subsequent fiscal year.*
>
> *(2) Notwithstanding sections 30 and 32, where the charging of an expenditure to an appropriation under subsection (1) would cause the appropriation to be exceeded, the Comptroller General may charge the liability, and the amount by which the liability exceeds the appropriation is an interim appropriation for that fiscal year.*
>
> *(5) A disbursement may be made in a subsequent fiscal year to discharge a liability charged to an appropriation under subsection (1).*
>
> *(7) The amount by which a disbursement made under subsection (5) exceeds the amount fixed by the Comptroller General for the liability is an expenditure for the fiscal year in which the disbursement is made.*

The Auditor General's Office is of the view that although these sections provide a mandatory requirement to recognize a legal liability, charge that liability to an appropriation, establish an interim appropriation, and make a disbursement pursuant to that liability, they do not constitute authority to actually pay that liability. I cannot agree with this interpretation. I believe the legislation is clear, and proper procedures were followed with the exception that a redundant supplementary appropriation was not presented to the Legislative Assembly after the fact.

Mr. Chairman, the final matters I would address are the issues raised by the Auditor General's Office concerning the government's public/private partnership pilot projects. I would observe that the Auditor's view of P3 arrangements is from one specific point of view. There are many other points of view held by industry, business, labour, governments and academics. Over the last few years we have heard from them all. In an effort to obtain as objective and balanced view as possible, the government commissioned an independent evaluation of its P3 initiative by the consulting firm of KPMG. The final evaluation report is now complete and was provided to all Members of the Legislative Assembly on March 16, 2001. It was also sent to a large list of people who provided input into the evaluation and it is available on the FMBS website.

If Members have had a chance to read the report, they will note that the conclusions as presented in the executive summary include the following:

- The GNWT tried to do too much too soon;
- P3 is a form of change management, it needs a high-powered champion at the political level;
- The entire implementation framework... did not work perfectly, but was generally well-conceived;
- P3s can generate significant benefits to governments, but they are difficult to implement;
- The "price of admission" into P3s can appear relatively expensive to a small jurisdiction;
- The government tried to transfer more than optimal levels of risk to the private sector;
- The difficulty in obtaining sufficient numbers of high-quality bids was a major disappointment... and that the desire for competitive bids may well be in conflict with the economic development objectives that lead to preference for northern bidders; and finally
- The government has effectively put a moratorium on new P3 projects.

The government is still in the process of digesting the KPMG evaluation report. Based on this report and policy discussions that will have to occur with standing committees, industry, business and others, a decision will need to be made as to whether the government ever again pursues P3s and what form they may take.

At this point we can certainly go through the Auditor General's comments on the P3 experience. However, I would note that many of the same types of observations and issues are also looked at in the KPMG report, but from a different perspective with often different conclusions. That concludes my opening remarks, Mr. Chairman. Thank you.

CHAIRMAN (Mr. Dent): Thank you, Mr. Voytilla. Do committee members have any questions on Mr. Voytilla opening comments? Mr. Bell.

MR. BELL: Thank you, Mr. Chairman. Just one about the P3 issue. I guess we will get into the specifics of this, but Mr. Voytilla comments looks like we are suggesting that the audited view of P3 arrangements is from one specific point of view, and we contrast that with KPMG's report which has looked at various sectors, and he suggested that is objective, balanced and independent, but we also have to keep in mind that we paid for this review, and I think that has to be taken into consideration.

I would suggest that while the auditor does have one point of view, it, in my opinion would be also considered objective. Thank you.

CHAIRMAN (Mr. Dent): Thank you, Mr. Bell. Mr. Miltenberger.

MR. MILTENBERGER: Mr. Chairman, I just wanted to speak to the issue, and I have a number of issues to Mr. Voytilla's comments, but the first one is in the area of timeliness that the Auditor General referred to and that Mr. Voytilla addresses. He seems to indicate in the second paragraph on page two that it is a question of the lack of expertise and staff resources in the consolidated entities that would preclude the possibility of more timely reporting that other jurisdictions do, like Alberta for example.

I was wondering, is there a way to address this, and is this issue going to be touched on when you look at this third party accountability framework? It is also referenced in there as well as one of the problems, getting the consolidated entities to report in a timely fashion which makes it difficult for the government to then in turn follow through with their obligations in a timely fashion. Thank you.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. The Member made reference to Alberta, and I do know that in the past Alberta has set a high standard for other jurisdictions to try to match, because they do tend to get their public accounts out, usually by the summer of the year following, instead of the fall or the winter.

They do that, however, by proceeding to publish their consolidated accounts without necessarily having audited statements from all of their consolidated entities. One of the reasons they may be able to do that is they have a fairly high materiality limit for a larger jurisdiction.

With our consolidated entities, we are speaking specifically to Aurora College, the Northwest Territories Housing Corporation, the Northwest Territories Development Corporation, the Northwest Territories Business Credit Corporation, and the Northwest Territories Power Corporation. Those are the entities we consolidate. So, we need audited financial statements from those organizations before we can publish our consolidated statements.

The concern I would have with following a practice of publishing consolidated statements without audited statements from the other entities is that our materiality limit is generally around $5 million. In other words, if we are within $5 million, we do not really consider it a material misstatement of our financial statements. The operations of the college, the Housing Corporation and the Power Corporation certainly, if we did not have audited statements, their scope of operations is large enough to put us well over that materiality limit if there was a significant error or omission in their statements that would otherwise be picked up by the audit.

I am reluctant to suggest that we would ever publish, and the auditor can speak to this, whether they would provide us with an unqualified opinion if we did not have audited financial statements from some of those larger entities. The issue with getting it from them earlier is they have to go through their own year end close process and they do have to get their own audits done before they are able to feed into us audited statements.

To the extent that they would need extra resources to speed up their process by two to three months I would suggest that it could be an expensive proposition that may not even be practical to do, and that is why I made the comments about whether or not they have the capacity, systems and expertise to in fact generate audited financial statements three months earlier than they are today.

CHAIRMAN (Mr. Dent): Mr. Simpson.

MR. SIMPSON: Thank you, Mr. Chairman. Just to go back on a couple of things that Mr. Voytilla mentioned in his opening statement, on the P3 thing, we had a very interesting discussion at the conclusion of writing this report, and I think to say we had different opinions on some of the P3 things, and we agreed that differences of opinion are I think very valid. They should be put out on the table for debate from a public policy point of view. I do not disagree with what Mr. Voytilla said in that respect, Mr. Chairman.

I would like to suggest that I think our view is independent and objective, and you did not pay us for it.

The second issue on the authority issue with regard to the FAA, I commend Mr. Voytilla if he thinks the act is clear. Our legal advice is that there was a breech there. It is somewhat history, somewhat technical, and this issue is gone. We brought this forward because of our responsibility for compliance auditing.

I do not believe that this is something that one should make a huge song and dance about, because I think the substance of the transaction, if not the legal form, is probably okay. In fact, not probably, it is okay. Well we will agree to disagree perhaps on our interpretation of the FAA there, I believe that issue in substantive sense has been correctly dealt with.

With regard to the audit of the subsidiaries, I think Mr. Voytilla made some valid points. I would like to point out however, that the Northwest Territories Power Corporation always has its financial statements completed and audited by the end of June. They are very diligent in meeting their 90 day statutory deadline and very successful. Mr. Voytilla does point out that Aurora College causes a slightly different challenge in as much as the year end of the college is June 30, so the earliest that they can actually have their statements ready for audit is usually the end of August, because it takes about a month to do the audit. If we wait for Aurora College, obviously there is that time delay there and that is a very appropriate statement. BCC is usually done reasonably well and relatively on time. I do not think that is a big issue. I think the two problem areas are the ones Mr. Voytilla referred to: the DevCorp, which in the past has been chronically late, it is improving, and I think we have to give some recognition to the new management there for that effort; but the Housing Corporation has always been a problem also. It seems to take a long time to get the Housing Corporation's financial statements complete, in an accurate sense.

I think Mr. Voytilla is quite accurate in saying that throughout the audit process, we identify many areas in the draft financial statements of the Housing Corporation that do get corrected by the corporation before we issue the financial statements and our opinion on it in a final sense. All things being equal, we could put, perhaps jointly, through the government and our office, more emphasis on the Housing Corporation and that would probably help to streamline the process somewhat. I doubt very much if we could squeeze three months additional improved timeliness in a very short period of time.

I think if there is a willingness there for us all to work together in terms of helping the Housing Corporation to complete its processes early, we can actually get that consolidation done on a more timely basis. Thank you.

CHAIRMAN (Mr. Dent): Thank you. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. Can I ask Mr. Voytilla to elaborate then, is the situation with the consolidated entities the only factor that would preclude a more timely response? It has been 12 months – 12 months to do this last go around. If the consolidated entities, especially the ones just mentioned were on-line and producing information in the required time, would the government then be able to shrink that particular time frame back from 12 months, to eight or nine? It looks like it has been averaging about ten in recent history, then up to 12 in the last couple of years. I think those are the numbers we were given. Thank you.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. Generally, I think if you look at the schedule in the Auditor General's Report, the actual accounts are probably ready around nine months after the end of the year. The opportunity for tabling, of course, is the winter session. That is what delays tabling for an additional month or so. I would also note that the last year where there was 12 months was the division year, if I remember that schedule right. There was, as I explained, a substantive reason for why it took longer to get the 1998-99 accounts ready, because we did have an exorbitant amount of additional work to do the due diligence between us and the Government of Nunavut.

I would suggest that the Power Corporation is going to see a delay this year in the production of their audited financial statements because they are going to have the same due diligence process to go through on the division of the assets and liabilities of the Power Corporation that the government went through a few years ago.

We have just finalized the agreement with Nunavut on the division of the Power Corporation . It was concluded on Friday and approved by the respective governments on Friday. Now what will kick in is a three to six month due diligence process by Nunavut Power Corporation on the year end that the NTPC is going through. I would be very surprised if they do not experience a delay this year. A justifiable delay, I would note.

Getting specifically to the Member's question of, if all of the consolidated entities could improve their reporting by three months, could the government match that with its own accounts? I would say definitely. We already publish our interim financial statements by September 30th of every year, and our interim financial statements, although unaudited, are the recording of our core government operations, all of our departments. Certainly I would see no reason why the government entity itself would not be able to achieve an earlier timing of the consolidated entities could be available three months earlier.

CHAIRMAN (Mr. Dent): Mr. Simpson.

MR. SIMPSON: I agree, Mr. Chairman. In fact, it has long been our own internal goal to try and have the audit of the consolidated statements wrapped up by the end of September. I think that with good will and effort on all parties, that is probably an achievable goal within the next couple of years. Again, depending on whether or not there are any unavoidable delays in any of the material subsidiaries.

With regard to the Power Corporation, incidentally, it is our understanding that the Power Corporation still intends to have its statements ready for audit at the normal time, notwithstanding that they may be nickeling and diming each other to death in terms of the negotiations of individual assets and liabilities. As long as the amount that is still subject to negotiation are not material, there is probably no reason as to why the audit could not still be completed on time. We will have to see how that one goes, because there are no guarantees on that, but the goal of the corporation is still to stick to pretty well the same accounting and auditing schedule to the extent possible we will need that.

CHAIRMAN (Mr. Dent): Thank you. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. Just a final question on this issue. Mr. Voytilla indicates that he would suggest that extra resources and costs of earlier tabling dates be determined so that the cost benefit of this change can be measured. Is that something that you intend to do or is that something that someone else would have to do? For example, with the chronically late consolidated entities, what would they require to get this done in a timely fashion? Is that something that you will be following up on so that we can take a hard look at this? Thank you.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, I can make an undertaking to the committee that I will investigate this with the consolidated entities and discuss and work with them on assessing both the technical practicality of an earlier provision of audited statements, and any resource implications of achieving that. .

Mr. Simpson has already mentioned the one problem with the college's reporting year, which will have to be dealt with. Saying that, it may be if that is the only consolidated entity we would not have audited statements on, we may still be able to publish with confidence that any result of the college audit would not affect our materiality limit. We do not need to have all of them 100 percent done, we just have to make sure we are not putting a jeopardy on the reliability in place on our consolidated statements.

CHAIRMAN (Mr. Dent): We can expect that you are going to do this right away, Mr. Voytilla? The one question you did not answer is, when?

MR. VOYTILLA: Mr. Chairman, Mr. Scott has noted the commitment and I will be expecting him to draft a letter for me very shortly, in a couple days. .

CHAIRMAN (Mr. Dent): Thank you. Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. Just a little further on this line of questioning, and it goes back to the same comments Mr. Miltenberger referred to, the second paragraph on the second page, when we talk the staff resources and expertise. My understanding then from the questioning is that it is not within the government that the concern lies with consolidated entities. Hearing some of the discussion, I still feel that if we have a requirement that is in law that we have to come back for and the departments have to come back for, consolidated entities have to request from the House for delay. Then we either adjust our laws or we enforce them.

What I would say right now is we have to encourage the fact that we have a law in place, and they should be meeting these. I have been keeping track of the job opportunities, the government employment opportunities that is emailed to all Members and to all government staff. Either we have experienced a high turnover rate or we have been staffing up in that sense in government, and maybe we can share some of our resources.

I will go back to what the mayor said to the Standing Committee on Governance and Economic Development when they were doing a public hearing on the Hotel Room Tax Act. After division, we did not downsize, we maintained the same level, and in fact have grown, as people out there are saying. We know from the move of the 14th Assembly of the no layoff policy that in fact seems to be the truth. Maybe we do have resources there that we can shift and help some of these consolidated entities to get their job done if that is a requirement. Thank you.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, those are good thoughts, and we will certainly take them into account when we look at the study if there is, in the entire accounting capacity of the consolidated entity some ability to adjust without incremental resources, but at this point in time I certainly would not commit to that.

CHAIRMAN (Mr. Dent): Thank you. Mr. Bell.

MR. BELL: Thank you. Another question, just for clarification in this area, I am wondering if Mr. Voytilla could maybe explain why the college year end is June 30th and not some earlier date, and whether or not this has to do with the semesters.

CHAIRMAN (Mr. Dent): Thank you. Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. Generally, organizations try to structure their fiscal year, financial year, reporting year in accordance with their business cycle. For an educational institute like the college, their business cycle follows the academic year. That is why they have set June 30 as their year end cut off.

CHAIRMAN (Mr. Dent): Mr. Bell.

MR. BELL: I guess the end of their spring semester must be the end of April, so this gives them conceivably time to get ready for June 30th? Although I would imagine they are running courses year round, so I am wondering what that says for their business cycle. It would seem to me that it does not really matter, maybe as a matter of convenience, but I do not know if it is anything more than that when the year end would be, as long as it is the same every year, we would have the information we would need and we could have it earlier if we required that they meet the deadlines or timelines that our other entities in the government are meeting.

CHAIRMAN (Mr. Dent): Thank you. Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. I do not really have an answer that I feel qualified to give to the Member at this point in time. The college I think feels very strongly about the appropriateness of their reporting cycle and their business cycle, but I can certainly undertake to enquire to them as to whether or not they see the difficulties of the change being significant and take that into account when we are assessing the overall practicality of advancing our reporting cutoffs. .

CHAIRMAN (Mr. Dent): Thank you, Mr. Voytilla. I am just wondering if it has anything to do with ECE because it also ties into the reporting of the divisional education councils. Mr. Delorey.

MR. DELOREY: Thank you, Mr. Chairman. Just a question on page 3 of the supplementary appropriations where it talks about over-expenditures where it says "until an opportunity to update or modernize the Financial Administration Act is available." What opportunity would be required to be able to change, or does this mean that there are going to be moves afoot to change the Financial Administration Act.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. The Financial Administration Act was last updated in the mid to late 80's, so it has largely gone without anything other than minor tinkering since then. There have been a lot of developments in the accounting field and the financial management field. I think it is probably getting close to when we should be considering a broader review of our act.

I would make particular reference to the earlier discussion we had about third party accountability frameworks and the potential need for legislative change to properly put in place requirements for third party accountability.

I guess in answer to the Member, I would expect that sometime in the next few years we are going to have to put a review of the Financial Administration Act on the legislative planning schedule and look at an update and modernization of it. In this particular case, of course, the concern that I am expressing is once you have booked the liability and established the accrual and that is reported on through the public accounts reporting process, it seems redundant to bring in a supplementary appropriation into the House that I believe presumes on the Legislature. I think there is limited value in this particular provision of the Financial Administration Act and it should be rethought.

CHAIRMAN (Mr. Dent): Mr. Miltenberger.

MR. MILTENBERGER: Mr. Chairman, on this particular issue I have a question in terms of process. When you have a situation where the Auditor General makes an observation and Mr. Voytilla or the FMB disagrees, I am just curious. He says that they disagree, and with the exception of the redundant supplementary appropriation, everything was done okay. Is there a resolution to this, or does it just go on record that there is an observation and an agreement to disagree? Does someone have the hammer here? Do we say, well, we think the Auditor General is right, you are wrong, or does it just go down in history as being identified, we just go our merry way and see what happens? I am not sure.

CHAIRMAN (Mr. Dent): We could choose to pick one side or the other. I think I have heard Mr. Simpson say today that it is not an issue worth pursuing any further, and that the substance of it has been resolved. Whether or not there is any need to push this any further, or we just make sure, if we do get into a review of the FAA that it is something that gets dealt with. Mr. Miltenberger.

MR. MILTENBERGER: I do not want to focus on that particular issue, I just am interested to know what is the process when there is a disagreement. I heard the comments as well, but I am curious as to what happens when there are two different points of view. How is the issue resolved?

CHAIRMAN (Mr. Dent): We put them side by side, and let them sharpen their elbows.

– Laughter

Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. On this specific issue, and then on the general issue. We do agree that 36(4) was not observed. We certainly agree with Mr. Simpson that the government should have brought this after the fact supplementary appropriation forward to be in full compliance with the FAA. Where we disagree is in the issue of whether or not a disbursement could be made once the liability was established. That is where the disagreement is.

I agree with Mr. Simpson, it is largely a done issue, I do not think that there is any disagreement about the fact that a liability existed or that it was appropriate to pay it out. It is more a procedural thing.

Speaking now to the more general, I know Mr. Simpson will comment on that as well, if there is a disagreement that is substantive enough, Mr. Simpson as the external auditor could qualify his opinion. That is a pretty big hammer for him to hold, particularly if we were in the market for borrowing, that could affect our credit rating. A clean audit opinion is very important to the government. It would not be something that we want to leave unresolved between us if it was deemed significant enough by the auditor to qualify his opinion. With that comment I will leave it to Mr. Simpson to further elaborate.

CHAIRMAN (Mr. Dent): Mr. Simpson.

MR. SIMPSON: Thank you, Mr. Chairman. Mr. Chairman, I think it is fair to say that although we are obviously sometimes on opposite sides of the fence, there is good will on both parts in terms of getting this audit done. The objective at the end of the day is to make sure we have sufficient independent and credible evidence to be able to support the assertions that are made by government.

There will be times when we do not agree on a particular thing. We have good discussions on those things. As Mr. Voytilla said, one of the hammers would be a qualified audit opinion. There is another one, and that is the one we have used here. We will bring it to your attention in the report on other matters. We would normally do that if there was a significant issue that required an audit qualification, but also in the case of this pay equity situation where we agree that the substance of the transactions has been dealt with appropriately, but the form has not.

In other words, it is not something that we would jump up and down and get terribly excited about. We bring it to your attention. Frankly, I think in doing so, we have the majority of the Legislative Assembly Members present in this committee, and if the committee feels that this particular issue has then met the substantive test, if not the form test, I think it is then up to the committee to decide whether the explanation it has received have been sufficient and appropriate, or whether it would want something else done.

I would not want to presume on what the committee's decision might be, but I would just reiterate that I do not think we have any disagreement whatsoever on the substance of this particular issue.

Coming back to the disagreements, that is normal. There will be things where the government takes one particular point of view, we as auditors have a different point of view. If it is not material, those things just die. If it is a material issue, such as this one, obviously it is something that we would bring forward. Thank you.

CHAIRMAN (Mr. Dent): I think if that is it for questions on the Secretary to the FMB's comments, I will call a ten minute break and then we will do the chapter by chapter review of the Auditor General's Report. We will recess until quarter to 11. We should advise Ms. Delancy that she probably will not be on until 1:30 p.m.

– Break

Chapter by Chapter Review of the Auditor General's Report

Chapter 1: Compliance with Authority and Public Accounts

CHAIRMAN (Mr. Dent): We will resume our consideration of the Auditor General's Report and now go through it chapter by chapter with the committee. Do Members have any comments or questions on the introduction? If not, into chapter 1, compliance with authority and public accounts issues. Do Members have any questions? Are there any questions?

Mr. Voytilla, under section 1.11, the Office of the Auditor General makes a comment that - it would be helpful if we could actually get a sense, in looking at the budget, of what the free balances are. In other words, what has not already been committed from prior years or by contract. Is that possible? I know that the Members are also interested in seeing a better breakdown within the budget, so that we do not see $25 million in other expenses for instance without there being any easy to understand reconciliation of that in the pages following.

I think the whole issue here is that budgets are public documents that help Members and the public understand how the government is proposing to spend its money. Is this something that you can see bringing forward in terms of helping us to understand what is in a budget? Mr. Voytilla.

MR. VOYTILLA: Certainly, Mr. Chairman, it is an area where we could spend some additional time. We already do report on commitments in a number of areas. Lease commitments are reported through Public Accounts, and I believe there is an information item in our Main Estimates on, say, office lease commitments. We could certainly try to expand that into other areas. I know from time to time we have discussed with the committee with its budget hat on the level of multi-year commitments on capital construction for instance. That is the type of thing that we could put forward by way of additional information in the budget.

The government itself has a commitment recording system during the year where all of our salary commitments, contractual commitments and purchasing commitments are entered into our financial system and tracked and monitored through the year so we have free balance control, but that is more of an operational reporting mechanism. In the budget structure there are only a few areas that we actually provide additional information on multi-year commitments, but that could easily be expanded. If you wanted commitments on the level of contribution commitment with our boards and agencies, or the level of contribution commitment with our municipalities, that could be provided.

In point of fact, most of the budget, if not legally then certainly practically, is largely committed, if not before the start of the fiscal year then soon thereafter. There is not a lot of free balance flexibility available to the government during the course of a year, simply because of our ongoing obligations and our program commitments, but we can investigate that with you.

CHAIRMAN (Mr. Dent): Thank you. I think many of us are already aware of the fact that probably 90 percent of our budget is already spoken for before you even get to looking at it. I think the public may not be aware of that, and I think the point here would be that making that information more readily available in the budget presentation would help to highlight the fact that there is not really a lot of flexibility in terms of where we allocate our monies. Just to help the public and perhaps Members understand better would be useful. I think we would welcome that sort of information, if you could find a way to work it in.

In terms of the other issue that the Office of the Auditor General has raised here under section 1.33 in the report under subsequent paragraphs. There does not seem to be any management response in the Auditor General's Report that outlines what your opinion is of this recommendation. Would you care to make some comment on that right now, Mr. Voytilla?

MR. VOYTILLA: Yes, Mr. Chairman, I think the auditor's observations about having indicators of the government's financial health are good. There is definitely, as he points out, some guidelines already available for government reporting on fiscal health. We have been spending some time of how we can take those suggested indicators and construct them in a way that would be meaningful in the context of our specific financial condition. Because we are different in structure and circumstance from provinces, I think that many of these indicators do need to be adapted to our reality, but it is an initiative that we are currently working on and hopefully will be able to include some of these in our public accounts for 2000-2001 fiscal year which is just closing.

CHAIRMAN (Mr. Dent): Thank you. Any other questions or comments on chapter 1? Mr. Braden.

MR. BRADEN: Thank you, Mr. Chairman. I think that somewhat related to this area is a report that the GNWT is committed to releasing is an annual report on the Government of the Northwest Territories, something that has not been done for a while. We were advised, I think, through the Department of the Executive that this was going to be done. I wanted to ask Mr. Voytilla to what extent will this report contain this kind of information in a simple and understandable way as the Auditor General has recommended in section 1.37. Will the annual report of the government, which I understand is expected for June, have any of this kind of information? Thank you.

CHAIRMAN (Mr. Dent): Thank you. Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, I may need to seek clarification as to which annual report the Member is referring to. I know that we are looking at including some of these indicators in our public accounts. We are also looking at including them in the government-wide reporting on results, which is a series of indicators and measures that we did present to the standing committee last fall as a proposal on government-wide results reporting, and are waiting comment from the committee. There is an intention to move forward on that this fiscal year in the form of a public report.

With respect to a government-wide annual report, that I know was discontinued about ten or twelve years ago, I was not aware, quite frankly, that there was an initiative to revitalize that and so cannot really respond directly to the Member's comments if that is what they related to.

CHAIRMAN (Mr. Dent): Mr. Braden.

MR. BRADEN: Thank you, Mr. Chairman. My understanding is that there is a commitment to a re-issue or bring back to life a kind of a consolidated report for the general public that says - here is what the government has done in the past year from a program or fiscal point of view. Outside of that, I think it is largely from information that Ms. Snider has provided to committees. That is the context in which I was asking that question. Will this report, prepared and written for a very general audience, have any kind of this financial reporting and interpretation in it? I think I have the answer though. Mr. Voytilla has indicated that he is not aware of what is on the table for that, so perhaps we can see something in a subsequent report. Thank you.

CHAIRMAN (Mr. Dent): I take that as a comment with no response. Mr. Delorey.

MR. DELOREY: Thank you, Mr. Chairman. I have a question on pay equity where the government has paid out $27 million, and the balance payable to eligible recipients was kind of contingent on whether they could be located. Is there any further movement on that? Have there been any more located, or any more settlements reached?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Yes, Mr. Chairman, as we are able to track people down and contact them, a high number of them are accepting the settlement offer. However, the pace at which we are now able to track individuals down is slow. We did go through Revenue Canada last year and were able to, in fact, get addresses for over 600 of the people we were not able to earlier locate. We are also now working very closely with the Government of Nunavut to enlist their aid in tracking down former employees so that we can ensure that we have made contact and ensure they have the opportunity to consider the settlement offer. Progress is being made.

These things trickle in a couple a week it seems, and over time I am confident that as we are able to actually locate people a much higher percentage will accept the settlement offer. Right now, of the people we have actually been able to make contact with, 84 percent have accepted the settlement offer.

CHAIRMAN (Mr. Dent): Any other questions or comments on chapter 1? If not, we will move on to chapter 2, public/private partnerships. Mr. Roland.

Chapter 2: Public/Private Partnerships

MR. ROLAND: Thank you, Mr. Chairman. In the management response they refer to KPMG to review this and that has been done. What was the cost of that review?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Approximately $200,000.

CHAIRMAN (Mr. Dent): Thank you. Mr. Roland.

MR. ROLAND: Do we consider that money well spent given the fact that the decision is that no further P3s will be entertained by the Government of the Northwest Territories? A question for Members I believe. Thank you.

CHAIRMAN (Mr. Dent): You are asking Members that?

MR. ROLAND: Mr. Chairman, in this area, it has been well over a year when the government has changed focus. P3s have gone out of favour in a sense of governments and the decision was not to proceed with any further other than the one that was done by this government. So further work in this area I questioned earlier, and now Mr. Voytilla has responded to me in other forms that it is good for the government to get feedback as to what was done and what could have been done right, but it sounds like that at the end of the day there is no incentive to move this way in the future. I do not know if we have really accomplished anything with this. Thank you, Mr. Chairman.

CHAIRMAN (Mr. Dent): It was a commitment that was made though by the government that there would be an evaluation. I think we have to recognize that this was a promise that was previously made that there would be some form of evaluation. Whether or not the KPMG counts as an independent evaluation or not may be the question, but is more relevant than whether one should have been done. I think we would be hard pressed to be critical of the government for following through on a promise they had made in this situation. Mr. Voytilla, would you care to make any comments?

MR. VOYTILLA: Just to add, Mr. Chairman, that I think here is value in the evaluation from a standpoint of advice as to what worked, why it worked, what did not work and why it did not work. If we are going to entertain getting into partnership arrangements in the future, they may not be structured the way that we initially structured them in the capital P3 initiative. But there might be other opportunities for P3s that may not even be capital. There may simply be ways of working better with industry on initiatives. I think there is good valuable advice in this evaluation report to guide us in that regard. I think that as a forward-looking tool it does have considerable value.

CHAIRMAN (Mr. Dent): Mr. Braden.

MR. BRADEN: My question was very much like Mr. Roland's. I was trying to get a sense from the information we have so far of whether P3s really do have a legitimate place in our basket of options, if you will. The information that we have so far indicates that, yes, we have made some mistakes, they are potentially worth considering. But is there really a next step that we should be anticipating or looking for to say, yes we can and should indeed be looking at P3s from now on and here is how we are going to do it? In the meantime, do we just stand by and wait for that assessment? Perhaps if I could ask one question, when does Mr. Voytilla see that kind of yes or no decision being made? Thank you.

CHAIRMAN (Mr. Dent): Thank you. Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. I do not know that there is going to be a definitive time frame in which we would recommend recommencing or never again commencing P3 initiatives. I think that this give us a framework and some experience upon which to assess future opportunities as they may arise. There may be situations where we are approached as a government to initiate a partnership approach to a particular project or issue, and I think this is good background guidance in how we should then proceed to follow through on that.

At this point in time I do not think there is a specific, and I would not suggest that there is a specific need, to make a final determination on whether we should ever do capital P3s again. I think that I would simply leave this as a repository of information and advice if we ever see the opportunity present itself again.

CHAIRMAN (Mr. Dent): Thank you. Are there any other questions? Mr. Voytilla, the question I have refers to paragraph 2.3. The Auditor General has concluded that the Fort Smith project should be a capital lease. There is no response to that in the management response in the report. Do you have a response to that recommendation, or do you accept that? I do not think it makes much difference to the government with our accounting process now, which way it is accounted for. Are you still intent on seeing this as an operating lease rather than capital? Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, there are now some new PSAB guidelines that came out, which are the guidelines that we follow in assessing whether these should be capital or operating leases. These came out, I think, either during or just shortly after this project was implemented. On that basis, this is being categorized as a capital lease, and we are happy to do that.

CHAIRMAN (Mr. Dent): Are there any other questions or comments on this chapter for Mr. Voytilla? Mr. Krutko.

MR. KRUTKO: One of the big problems seems to be the lack of resource or technical people in-house. It seems like we are picking up the pieces as we go along, and it seems there was a reluctancy from certain departments, Public Works and other areas, especially on the management side of projects and contracts. I wonder if that has been looked at in light of - the idea was great, the P3 initiative to find resources. If you have a deficit situation, you want to try to look at alternatives. I feel that was probably one of the downfalls of it, we did not have expertise in-house who had that experience and who had gone through it before. We are trying to train people and get people to familiarize themselves with such a new concept. I wonder if that has been looked at and if in the future there will be a possibility of looking at the P3s and trying to do it right. I think that is one area we have to focus on because that is an area we failed badly in, knowing there was real competition out there to try to look at different projects.

There were a few in my riding that had base work done, but yet at the end of it all it seemed like there was more internal battles going on rather than getting down to the nuts and bolts of it. I wonder if anything has been done in that area with regard to the capacity side of taking on such an initiative again and having the human resources there to do it.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. The Member's comments are good ones. The experience of the Government of the Northwest Territories with P3s was quite limited when we started this process. I would note, however, that the experience of all governments in Canada was extremely limited with respect to P3s when we started this process. There was not a body of best practices and expertise to draw upon. We were kind of on the bleeding edge, as were many other jurisdictions that embraced the P3 approach over the last three or four years. What we are finding is that the accounting profession, business and government, has learned a lot of lessons in the last three or four years as they have tested the waters with P3 approaches. That is one of the values I would note in the KPMG evaluation, that they have assessed all those experiences throughout the country and formulated a body of advice that we can then refer to if we ever choose to pursue P3s again.

Certainly within the organization there was a steep learning curve, that was very definite. I think there was a lot of experience gained, and so that experience currently resides in the organization. I think that as the KPMG consultants pointed out, P3 was a real change management process. It did threaten a lot of the traditional ways that we did things in the organization, and the traditional division of responsibilities and roles, and that was an issue for us. Clearly, in that regard, the Member's comments are quite valid. If we were approaching this again, I think we would not again under-estimate the internal impact of this kind of dramatic change in how you do business.

CHAIRMAN (Mr. Dent): Thank you. Mr. Bell.

MR. BELL: Thank you. I just wanted to ask Mr. Voytilla to decode one of KPMG's assertions in their executive summary for me. The point they make is that the government tried to transfer more than optimal levels of risk to the private sector. The Auditor General's conclusions on the Fort Smith project – which I assume they must be referring to because I think it is the only P3 project that we have seen – are that in a true P3 deal the private sector would be responsible for the management and rental of the facility, collecting rents, generating third party revenue, and thus assume most of the risk and provide cost savings to the public sector partner. This project does not reflect these aspects, so I wonder if Mr. Voytilla could speak to what KPMG may have been referring to in this point, and if, in fact, tried is the optimal word here.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: One of the benefits that governments see from P3s is that there is a transference of certain risks on a capital project to the private sector. Those risks are things like design risk, that the design may not have been done well and so there are structural problems with the facility later. Under P3, the design risk and the construction risk is in theory passed to the developer. In other words, if they make a mistake on the design, or if they do not do the construction well, then they pay the price down the road in fixing or repairing the building, modifying the building, or incurring higher operating costs. That level of risk transference was a fundamental objective of the P3 approach.

I think what is being referred to by KPMG is that in our effort we tried to transfer a lot of that risk to the developer trying to achieve, in our view, value for money because it was only through that risk transference that any premium that might be paid was clearly justified. I guess, if you will, KPMG is saying that we have pushed too hard, we tried to transfer too much risk to the private sector, the private sector was not ready or willing to accept that risk, and so as a result the negotiations maybe more difficult than they should have been. The private sector maybe did not bid - we did not get as many competitive bids as we would have liked because they were scared off by the level of risk transference that we were trying to achieve.

I think that is where the KPMG observation falls, that is what it is referring to. I certainly would not, with the benefit of hindsight, disagree with that observation.

CHAIRMAN (Mr. Dent): Mr. Bell.

MR. BELL: At the end of the day, we were unable to transfer any of this risk to the private sector because we, in fact, stipulated the design criteria, I believe. As you indicated, we did not get the bids that we expected, so we sort of short-circuited that part of the process?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, we did achieve a substantive transference of risk. Not as much as we initially set out to achieve, but we did achieve a substantive transfer of risk. I think what perhaps the Member is referring to is, did we see in the P3 approach some of the more indirect benefits that were supposed to accrue from P3s? The indirect benefits are things like private sector innovation and creativity, and the private sector ability to alter design or incorporate other revenue-generating activities in the facility, and by doing so being able to reduce the price to the government.

For example, the Fort Smith residence comes to mind where, if we had let free rein to the private sector innovation, the private sector might have put a lounge in there, or might have put some other revenue-generating facilities in the building to achieve some spreading out of the operational and construction costs, and so give us a cheaper price. We did achieve, I think, some of those types of innovations, but not as many as could have been achieved if we had been wide open with what the private sector was allowed to do. We did not want to see things like lounges in a student residence because we did not think it matched our objectives for the program. We did not want to see any kind of facility in the residence that would result in high traffic volumes accessing the building because that would detract from the quiet study environment and family environment we were trying to create.

We did, in fact, in Fort Smith, because of the nature of the residence, put some restrictions on what the private sector could add into the facility. As a result, we paid a higher price than if the private sector had been able to put anything they wanted in there, and thus spread the cost of the core facility out over more revenue generating activities.

CHAIRMAN (Mr. Dent): Mr. Bell.

MR. BELL: Thank you. I just want to make a comment. If we did put restrictions on their revenue-generating creativity, and they still managed over 25 years it looks like to generate $15.6 million in revenue in total lease payments from this government, I suppose they maybe would have offered to save the government more money if we would have allowed them some more creativity. It still seems that we would have been hard pressed to make this thing make financial sense or come anywhere close to what it would have cost to build this in the first place. Just a comment, thank you.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Certainly, Mr. Chairman, one of the areas where there is some debate is what the premium was associated with this facility. We did specifically look at the premium in the KPMG evaluation and our view is that the premium was perhaps one percent in that facility - and Mr. Scott is just telling me it was actually a savings on it. I guess it depends on how you crank the numbers and what assumptions you make, as to what premium you come up with. We have a very low premium, if any at all, in the analysis done by KPMG. We have a higher premium in the analysis done by the Auditor General. I suppose we could get into detail as to the assumptions and numbers underlying those two viewpoints, but clearly there is a difference of opinion.

CHAIRMAN (Mr. Dent): Thank you. Anything else on chapter 2? If not, I note that for chapter 3 we have Ms. Delancy and Mr. St. Germaine available. Mr. Voytilla, I would like to thank you and Mr. Scott for your attendance thus far in our proceedings. Of course, it being a public meeting you are welcome to stick around and watch how Ms. Delancy and Mr. St. Germaine do in their appearance before the committee. We may be requesting your appearance again before the committee after we conclude hearing from witnesses on chapters 3 and 4, so we may be asking you to return late this afternoon, although that is not certain yet. It would depend on whether or not the committee feels that there is a need to raise issues with you based on what we hear from other witnesses. Thank you very much for your attendance thus far.

MR. VOYTILLA: Thank you, Mr. Chairman. It was a pleasure appearing before you, as always. I will, as has been my practice, hang around for the entire session and see if I can be of some assistance.

Chapter 3: Health and Social Services: Alternative Service Delivery and Accountability

CHAIRMAN (Mr. Dent): Thank you. Perhaps we can ask Ms. Delancy and Mr. St. Germaine to join us at the witness table now. We are now ready to consider chapter 3 of the Auditor General's Report which has to do with Health and Social Services and alternative service delivery and accountability. Ms. Delancy, do you have any comments to commence our review of this chapter?

MS. DELANCY: Thank you, Mr. Chairman. I would just like to make apologies from Mr. Cleveland, who as you know is our new deputy minister effective yesterday. Unfortunately, before this meeting was scheduled we had already made a commitment to our quarterly meeting with chairs of health and social services boards with our Minister. They are in town. Mr. St. Germaine and I have come from that meeting, but our Minister wanted to have her deputy minister stay there with her, so we do apologize. It is bad scheduling, and we would have liked to have him here as well.

CHAIRMAN (Mr. Dent): Thank you. Do Members have any questions or comments for Ms. Delancy on chapter 3 of the report? Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I wonder if Ms. Delancy could speak to the issue of the accountability framework of Health and Social Services as referenced by the auditor and the work that is being done, and maybe indicate the relationship she sees with the other broader accountability framework review being done by Mr. McLeod from the south, the broader overview and the tie-in there. Could Ms. Delancy speak to that issue, please? Thank you.

CHAIRMAN (Mr. Dent): Ms. Delancy.

MS. DELANCY: Thank you, Mr. Chairman. Yes, as is indicated in the department's response to the Auditor General's Report, there is a document entitled An Accountability Framework for the Health and Social Services System which was put together by the department last summer, in consultation with health and social services boards and in response to some of the issues which were raised in the Auditor General's Report, and which we in the department agree are valid issues and concerns that have to be tackled. This was an attempt at a first look to try to clarify roles and responsibilities, and where the accountabilities are of boards to the Minister, of staff to boards, relationships between boards and departments and, ultimately, accountabilities back to the Legislative Assembly.

I think Members are probably aware, as well, that in the system action plan project which commenced in December, where Mr. George Cuff and Associates are looking at the system and responding to fairly extensive terms of reference, one of the issues we have asked them to look at is board governance and appropriate accountability framework. They are looking at this document, but they have also been out talking to stakeholders to see where this document may need refinement and improvement, and where we need to do more in terms of board governance.

The government-wide third party accountability framework dovetails very nicely with the work that we have asked Mr. Cuff to do. Like other jurisdictions, I think our government had recognized that we lacked some overriding policies in terms of having established a lot of third parties, a lot of boards of management and corporations, but not having provided enough clarity to those third parties about accountabilities under our legislative framework back to Ministers to ensure that we did have consistency in terms of compliance with legislation, in terms of reporting, not only financial reporting but reporting on results.

As you are probably aware, the FMBS is the lead on the third party accountability framework. They have established an interdepartmental steering committee of deputy ministers of all the departments who are involved in alternative service delivery through contracts or grants and contributions, and we are working together with the consultants from the McLeod Institute to try to identify that the benchmarks or touch-stones that must be common in all these alternative service delivery mechanisms. At the same time recognizing that there will be different needs and there are different legislative frameworks, so that the reporting requirements you might impose on a health and social services board may not be exactly what you might impose on a divisional education council, but there are similarities and everybody has to agree on what those similarities are.

CHAIRMAN (Mr. Dent): Thank you. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I wonder as well if Ms. Delancy could speak to the issue of deficits that is referenced in here. With the Surplus Retention Policy that was put in place, the issue of surpluses has been identified. However, rather than speak to this somewhat dated information, I wonder if Ms. Delancy could speak to the current deficit situation with the health boards, and indicate as well whether they are starting off the year with an agreed to budget this year, or are we just going to see a carry-on of the events from the last fiscal year? Thank you.

CHAIRMAN (Mr. Dent): Ms. Delancy.

MS. DELANCY: Thank you, Mr. Chairman. As I think Members are aware, there were four health and social services boards that began the last fiscal year that has just ended with operating deficits. We of course do not know yet what the fiscal situation is for the end of 2000-2001, but we are advised that there will probably be at least four boards ending that year with an operating deficit as well. I think we have briefed Members in the past on the status of the deficit recovery plans that were put together by those boards. In all cases, we felt there was not sufficient information to give final approval to those deficit recovery plans.

One of the issues that we run into, of course, with the surplus-deficit retention policy is that it does not acknowledge the fact perhaps sufficiently that if boards are under-funded the only way they can be responsible for their own deficits is by cutting services. I think we have said time and again that our intent is not to have reductions in service levels by health and social services boards.

One of the things again that we have asked the consulting team developing the system action plan to do is to look at both a more appropriate approach to board funding through some kind of funding formula and to look at the appropriateness of the Surplus Deficit Retention Policy in light of the fact that we recognize, I think quite clearly, that there are pressures affecting the entire system. Sometimes the pressures that are causing the boards to be in deficit are beyond their control, they are system-wide pressures in areas like recruitment and retention.

Finally, to answer the Member's question about what will the situation be for this year and will boards continue to incur deficits, we in fact have just come from a meeting with all the board chairs where we have proposed to them - and I think they have accepted - an approach where we would be working very closely with all the health and social services boards over the next two to three months to do a sort of a simplified zero-based budgeting exercise. Basically we will dedicate a team from headquarters to work with all the boards to try to build up their budgets from a starting point using consistent information, consistent budget lines and consistent chart of accounts.

We have found over the last several months that we really are not getting the information we need from boards in a form that will allow us to do system-wide analysis and system-wide comparisons. Right now the boards are budgeting differently, they are using different definitions in their charts of accounts, and it is very difficult on a system-wide basis to come back to the standing committee and to the Financial Management Board and say that this is the pressure that is causing deficits across the system.

We have suggested to boards that for the current fiscal year they will have a notional status quo budget for the beginning of the fiscal year, which will basically be the budget that they had for the fiscal year just ended, plus any approved forced growth. Over the next two to three months we will be devoting a lot of time and energy to working with them to try to get a very clear handle on their needs. That will give us the basis then to determine the deficit recovery actions they should be taking, or whether in fact we need to be coming forward and making the case that they are under-funded and need more funding in order to continue to deliver the same level of services. Thank you, Mr. Chairman.

CHAIRMAN (Mr. Dent): Thank you. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. It is interesting to hear that there is a plan to come up with at least a common base line to build from. What about the just concluded fiscal year and the financial situations, and the deficits that are there? That will just go on hold until you come up with your zero-base budgeting plan, or are you going to just accept somehow, do your final year-end wrap-up, clean up the year we have just finished and start afresh, hopefully from ground-zero as you are saying this fiscal year?

The reason I am asking is that I was talking to some of the people at the Fort Smith Health Board, for example. This was a week ago, and the deficit they thought they had with the new people they have there indicates that it may not be, in fact, a deficit. Could that situation be the same in other health boards as well? That is a fairly dramatic swing in terms of numbers. It has always intrigued me about the difficulty in coming to an agreement on the numbers and how they can change so quickly. Thank you.

CHAIRMAN (Mr. Dent): Ms. Delancy.

MS. DELANCY: Thank you, Mr. Chairman. In just a minute I will ask Mr. St. Germaine to give you the most up to date projections that we have from the boards who we think may be facing deficits for the fiscal year just ended. Mr. Miltenberger's point is very well taken. We have also been advised by the Fort Smith board that, based on the analysis they have completed, they think they may end the 200-2001 fiscal year without a deficit. This, of course, is a surprise, because up until recently they were projecting a continued deficit.

The Members have been briefed previously on the substantive swings in analysis and information that we have received from other boards which do make it difficult to do a long term projection. Again, I think what we are hoping is that by starting from the ground up, and building budgets that are consistent, we can also do a better job of helping boards to monitor and to do trend projections, so that we will have more warning ahead of time of where boards are going to be ending a year with a deficit, or when they are running into trouble and when, in fact, they may not be incurring a deficit at all.

The other point I will just make though is that one of the factors that we nave noted, and certainly the initial feedback that we are getting from Mr. Cuff and his team confirms this, is that we are getting a lot of changes in our trend projections caused by recruitment and retention problems. For example, when a board sets their budget, they are setting their budget based on the assumption that they will be fully staffed. When you have a community like Hay River that has not had doctors, that results in under spending their budget for physician services, and it may result in more medical travel and it may have an impact on Stanton's budget because more patients are being sent out. In fairness to the boards, some of the swings that we see are due to factors that they have no control over and really cannot foresee at the beginning of the year.

I will ask Mr. St. Germaine to provide some information on the latest projections that we have from the boards.

CHAIRMAN (Mr. Dent): Mr. St. Germaine.

MR. ST. GERMAINE: Thank you, Mr. Chairman. The information we have is based upon the third quarter variance. We require variance reports from the boards. Some of them are actually updated to the January 31 information, so it is third quarter and a little bit for some. Hay River is projecting a deficit of $891,000; Lutselk'e is projecting a slight surplus of $9,000; the Deh Cho board is projecting a surplus of $111,000; we have not received a variance report from the Deninoo board; the Fort Smith board analysis is not complete, but the information we have is the same as Mr. Miltenberger spoke to earlier; the Inuvik board is projecting a deficit of $756,000; the Yellowknife Health and Social Services Board is projecting a surplus of $526,000; Stanton is projecting a deficit of $1.5 million; the Dogrib board is projecting a deficit of $574,000. The net deficit in total is $3.1 million. Thank you, Mr. Chairman.

CHAIRMAN (Mr. Dent): Thank you. Mr. Krutko.

MR. KRUTKO: I had a question in the area of accountability because I have always had a problem, particularly in the Legislative Assembly, where as a Member if there is a health issue that comes up in my riding I can ask a question of the Minister, but the Minister cannot respond because she gave that authority to someone else. My concern is that by giving authority to people we did not devolve responsibility, and I think we have to somehow put through legislation or through the powers of the Financial Administration Act that they also have to follow the guidelines that are set out. You cannot continue to run deficits. You do have a budget and the way the budget is allocated, it is not given to you, and strings are cut and you can do whatever you want.

My problem is that when it comes to the whole area of having accessibility to the delivery of programs, to make sure that all residents are receiving the programs and services, no matter where you live. That is an area where I have concerns because we are starting to see that because of financial difficulties and attracting human resources, they are cutting programs to offset others. The biggest cost driver probably in most boards, especially in the Inuvik region, is the medical travel. Because of that, we are deteriorating the program delivery side of health. There has to be a mechanism in place where we have some assurances, or some sort of means of making the Minister accountable or making the boards accountable to the public. And not have closed door meetings and whatever happens there, happens there, and there is no one from the public. They can have petitions, they can ask for public inquiries and whatnot, but they are not accountable to you.

I feel that is one area that has to be developed, and we have to do it either through legislation or else we have to spell it out more clearly when you devolve these authorities through transfer agreements or through memoranda of understanding so that they understand exactly who they are accountable to, and how that accountability is going to be perceived as being transparent and open, people can see it. That is something I have a concern about, and I would like to know exactly what you are doing to improve in that area.

CHAIRMAN (Mr. Dent): Ms. Delancy.

MS. DELANCY: Thank you, Mr. Chairman. Those are excellent points and they are concerns that have been raised again and again, both in the Auditor General's Report and certainly through the feedback that we are receiving from the consulting of George Cuff and Associates. As I mentioned before, accountability and board governance issues are a big part of the terms of reference for what we have asked Mr. Cuff and his colleagues to look at, and I would like to share with you that we are very pleased that Roger Simpson from the Office of the Auditor General has agreed to sit in an advisory capacity with the steering committee that is directing the work of the Cuff consultants. He also was able to provide us with some really helpful input on the terms of reference for that project. The reason we have done that is to make sure that the recommendations that come forward do address the key concerns that are raised in the Auditor General's Report.

Another issue that I would share is that the third party accountability framework project that is being headed up by FMBS, again is designed to tackle the kind of issues that the Member has raised where we have to be very careful that in delegating responsibility, the Minister does not give up the legislative authority.

One of the precedents that we looked at in considering what a third party accountability framework should cover is an excellent document that was put together by the Government of Newfoundland and Labrador which is designed for trustees of boards throughout the system. One of the key points that it makes in there to trustees is, if you cannot accept that the Minister is ultimately accountable under the legislation and that your board will be accountable to the Minister, then you should not agree to sit on a board of management, because you will be required to report back and you will be required to comply with legislation.

There are some key messages that we need to get out there. We need to do a better job of letting people that are sitting on boards know what the expectations are, know what the rules are, know what their accountability is to the Minister, to the Assembly and to constituents. We need to back that up with support and good training. We are looking for very clear recommendations on how to do a better job from the Cuff Review, and also looking to the broader third party accountability framework to provide a kind of a touchstone for people on boards so that, hopefully, the kind of situations that the Member has raised will not occur again. Thank you.

CHAIRMAN (Mr. Dent): Mr. Krutko.

MR. KRUTKO: On the point of board authority, I think that we have to clearly identify exactly what is the difference between an elected board member and an appointed board member. We have elected members who are elected to education boards. We have people on health boards who are appointed, and they are appointed usually by representative organizations, not individuals. I think that being elected by the public at large, who you are accountable to, gives you more ability to speak on behalf of those members versus an agency or a group that appointed you.

There has been a concern, especially for the communities I represent, and people have approached individuals with concerns, and these people have been appointed but not elected, and it seems as if they are not accountable to the members at large. I feel that if you are talking about a public board, institution or agency of government, that they should be elected.

That has to be looked at and it has to be taken into account, considering that we have elected people to education boards out of our communities. I think that makes them more accountable to the public and the public is the one that puts those people there to represent their interests. In that way, you do have that dialogue between the individuals and the people that put them there. Right now it is not there. They are spending public funds, and they should be accountable to the public by some process of having put them in office or putting them on to a board, and vice versa where there is a process of eliminating at the same time where there is non-confidence or whatnot by the public.

The way it is right now, it is questionable - for one thing do they have any authority and the other thing is who are they accountable to. That has to be looked at also.

CHAIRMAN (Mr. Dent): You are getting into a policy area, Mr. Krutko, which should be more appropriately directed to a Minister, but perhaps Ms. Delancy could advise us.

MR. KRUTKO: Perhaps the Minister could be asked to come here and she can answer the questions.

CHAIRMAN (Mr. Dent): The committee certainly can, but that is not what we have today, we have the deputy. Perhaps Ms Delancy could advise us, though, whether or not the Cuff Report will address issues such as the consideration for elected boards over appointed boards. Ms. Delancy.

MS. DELANCY: Thank you, Mr. Chairman. This is an important issue that was raised by the Minister's Forum as well, and the terms of reference for the Cuff Review do ask that they look at the whole process of board appointments. We have not only the issue of elected boards versus appointed boards, but we have the other issue that the Member raised where in some of our health and social services boards the members' appointments are recommended by organizations such as town councils, Dene bands, Metis locals, and that can create confusion on the part of the board members whether their accountability is back to the whole constituency or back to the organization that appointed them.

In answer to your question, Mr. Chairman, we have asked the consultants to look at this issue and to make some recommendations. Thank you.

CHAIRMAN (Mr. Dent): Thank you. Mr. Bell.

MR. BELL: Thank you. I also have a question about the accountability framework. We have heard the department in the past talk about the framework as it was set up and where it was felt that we were maybe falling down within the reporting and monitoring, and not having the capability within the department or at the board level to be able to do this accurately. One of the things that keeps coming up are information systems and the lack of maybe compatibility or the lack of clearly linked systems.

I note that the Auditor General discussed five principles of effective accountability and gets into credible and timely information, and the need for them. You could probably add relevant and accurate and a few other things in here, but my point is that this year the department is doing what it can to try to make sure the budgeting process goes smoothly.

We decided to impose zero-based budgeting, and I am not exactly sure what that entails, but it sounds like we are trying to impose simplicity. I guess one other approach is that we could try to make sure that the capacity and the tools and systems for reporting are there at the board level. This may need some one-time spending of money, but I think we could have an ongoing situation here every year while we are trying to impose simpler and simpler procedures and curt down the amount of information we are asking for, or we could try to fix this thing up front and maybe it does require some money.

As I understand it, PeopleSoft still has not been rolled out to all the health boards, and I am wondering what the department's position is on this and if they intend to look at this problem, instead of just trying to simplify what they are asking for, and try to make sure that the systems are clearly linked and compatible at all the boards with headquarters.

CHAIRMAN (Mr. Dent): Ms. Delancy.

MS. DELANCY: Thank you, Mr. Chairman. In fact, we are just in the final stages of an information management and information technology review that is being done for us by Sierra Consultants. They have, as well as talking to people in the departments, gone to talk to the boards, and will be making a presentation to all the CEOs of the boards and having a discussion tomorrow. One of the issues that we have asked them to look at, and that they are bringing recommendations back on, is the need to standardize our systems and to standardize software.

One of the problems that we have, for example, in the financial management area right now is that each of the health and social services boards uses different accounting systems. So, as was the case in Fort Smith, if the director of finance should leave we do not have the capacity to bring somebody in from the department or help them bring somebody in from another board because they are all using different systems, and the knowledge and awareness of their system is not there.

Your point is well taken. We are looking right now at what we can do to standardize systems across the board. We will be discussing that with all the boards tomorrow, and making recommendations in the near future. We are looking at financial systems, human resource systems and at other systems particularly related to the health and social services field as well.

CHAIRMAN (Mr. Dent): Thank you. Mr. Delorey.

MR. DELOREY: Thank you, Mr. Chairman. I have a question on the figures that Mr. St. Germaine gave out as far - I guess these were the latest figures that are out - did I hear him correctly to say that the Yellowknife board was showing a $526,000 surplus?

CHAIRMAN (Mr. Dent): Mr. St. Germaine.

MR. ST. GERMAINE: Yes, that is correct, Mr. Chairman.

CHAIRMAN (Mr. Dent): Mr. Delorey.

MR. DELOREY: Okay, I was thinking of Stanton. Does Stanton come into that at all? What is the latest on Stanton?

CHAIRMAN (Mr. Dent): Mr. St. Germaine.

MR. ST. GERMAINE: Thank you, Mr. Chairman. Stanton is a separate board of management and they are looking at a projected deficit of $1.5 million.

CHAIRMAN (Mr. Dent): Mr. Delorey.

MR. DELOREY: Thank you, Mr. Chairman. Would the Hay River community health board - I think you said they were showing a deficit of $891,000. Hay River has operated for I guess a year under locums and there was mention of how the funding is affected sometimes between boards because of operating with no doctors and having more patients come into Yellowknife. Are there any indications or do we know the figures, did it cost Hay River more to operate under a locum situation than having full-time doctors in place? Has their budget been affected, or does anything show up in Hay River's budget because of the fact that a lot of patients were having to be sent to Yellowknife for treatment?

CHAIRMAN (Mr. Dent): Mr. St. Germaine.

MR. ST. GERMAINE: Thank you, Mr. Chairman. The Hay River board has provided us with some analysis of their projected variance and the rationale or reasons behind that. Yes, some of that is attributed to the use of locums. There is not only the locum rate, but there is also the cost of accommodation, moving the physicians in and out of the community which you would not normally see associated with a full-time physician. That is certainly one of the factors driving their deficit.

In terms of costs associated with Hay River patients travelling to other communities for services that they would not normally have incurred, the majority of that would be reflected in medical travel, and that medical travel budget is actually held and managed by the Stanton board. Increases in medical travel would be captured in perhaps part of their deficit, although I do not know the exact amount for the committee today. Thank you.

CHAIRMAN (Mr. Dent): Mr. Delorey.

MR. DELOREY: Thank you. Just in another area, with the Cuff Report I seem to be hearing that the department is in contact with Mr. Cuff and the report is going on. It almost seems that I am hearing that some change is taking place, or some things that are coming out in the Cuff Report that are already being addressed by the department because of issues that are being brought up. I am under the understanding that the Cuff Report is not complete yet. As a matter of fact, they are still talking about coming to do a second round of consultation with different boards and different interest groups. What is the status of that? Are the recommendations coming out of this report being worked on while the report is still in progress, or are they going to wait until after and do see what they can do with it? I am a little confused about that.

CHAIRMAN (Mr. Dent): Ms. Delancy.

MS. DELANCY: Thank you, Mr. Chairman. The Member is correct. We will not expect a final report and recommendations until the end of June. The terms of reference call for a report and recommendations by June 30th. Right now, in fact, the consultants are still finishing their trips to the regions and to communities. They are planning to go back to Hay River a second time. They are in Inuvik this week, will be in Norman Wells next week and they still have to go back to visit the Deninoo board as well.

However, in the meantime there are some issues which, although the Cuff team are looking at them, we as a department and yourselves as Members of the Legislative Assembly were already aware of, some of which were flagged in great detail in the Auditor General's Report. One of those issues is the challenge that is presented by the fact that we cannot seem to get financial information that is timely, consistent and comparable across the system.

So in terms of trying to figure out how to tackle the budget process for this year, when we still do not have final approval of the boards' forced growth and we are still wrestling with our deficit recovery plans, we had to come up with a plan of action that would allow us to not wait until the Cuff recommendations are received.

However, we do not want to implement anything that would be contrary to what the consultants might recommend, so we did sit down with the Cuff team on this budget process proposal that I have mentioned to you and said that we really need to do something to start getting our house in order for this fiscal year, is this going to be inconsistent with where you think your recommendations might be going. We have been advised that whatever recommendations the consultants bring forward, it will be absolutely critical that we have the financial information and that we be able to have it in a consistent format across the system.

Again, in terms of bringing in consistent financial software into the boards, whatever recommendations are made on board structure, we still will need to be able to take all the existing financial systems and integrate or change them. We are not trying to anticipate the recommendations. We are not trying to get out ahead of the consultants, but we are trying to put in place those fixes we know - whatever recommendations the Cuff team comes up with - we will still have a health and social services system with four hospitals and with a nursing station in every community. There are some things that we can start to do that should not in any way make it more difficult to implement the recommendations.

With regard to your other question about the status of the report, this afternoon Mr. Cuff will be sharing with the chairs of the health and social services boards some of their initial observations, They are not yet at the point of making conclusions or recommendations, but they are going to start feeding back some of what they have been hearing and give the chairs a chance to respond and tell them if there are other issues they should be looking at. I believe that our Minister will be making the offer for a similar briefing to this committee or to Members of the Legislative Assembly in the near future, if that should be desirable.

CHAIRMAN (Mr. Dent): Mr. Delorey.

MR. DELOREY: If some of these local boards are experiencing deficits of $891,000, from a department point of view, from a recovery plan - when you say that you do not want to lose any services at the hospitals or programs that are being administered - is it possible or conceivable to even think that boards can deliver all the programs and services that they are mandated to deliver on the budgets they have now, plus deal with a recovery plan at the same time for the deficit they are now experiencing?

CHAIRMAN (Mr. Dent): Ms. Delancy.

MS. DELANCY: Thank you, Mr. Chairman. That is one of the issues that we need to get to the bottom of through this budgeting process. Again, one of the problems that we have had in analyzing the deficits is not always being able to understand where the cost drivers are and whether they are in areas that the boards have no control over, or whether in some cases there might be internal efficiencies that boards could implement without affecting service delivery.

We certainly do not want boards to have to pay for their deficits if it means that they are going to have to take money away from the service area. By working with boards to try to build up their budget requirements from the base up on a program by program basis, look at each program area and say, what is it that you need to spend here, what are your cost drivers, we then hope to have a much better handle on whether the boards have any internal flexibility. As I believe our Minister has indicated to this committee and to the Legislative Assembly, if it appears that boards do not have the ability to cover those deficits from within without affecting service delivery, then she would be prepared to come forward and seek financial support to help the boards with their deficits.

CHAIRMAN (Mr. Dent): Do we have any further questions for Ms. Delancy on chapter 3 of the Auditor General's Report? Mr. Miltenberger.

MR. MILTENBERGER: I had a number of questions, but I understand that Ms. Delancy cannot come back and we have a Board of Management meeting at twelve, so if she could just expand a bit on who the Sierra Consultants are and the information technology review. Is there a time for the Knowledge Management Review as well that is taking place that speaks to the whole issue of government systems and how we store and move knowledge and share information, and those types of critical issues that tie in directly to the accountability and the ability to provide information back and forth within the system to legislators like ourselves? Thank you.

CHAIRMAN (Mr. Dent): Ms. Delancy.

MS. DELANCY: Thank you, Mr. Chairman. Just with regard to not being able to come back, certainly if the committee wants to continue we will have to find a way to make that happen. It is just that I am involved in a presentation to the chairs between one and three this afternoon, so we had a bit of a conflict there. Perhaps if there is a desire to continue, we can talk about scheduling.

Sierra Consultants is a firm based out of Alberta. They are experts in the field of health and social services information systems. They have done a considerable amount of work with the Alberta government and other western governments, as well as with the federal health infrastructure initiative. We have asked them to help us identify the departmental and system information technology needs that will help us to tackle some of the accountability issues and some of the technology issues that have been flagged, both through the Auditor General's Report and other initiatives. They have worked very closely with the consultants from George Cuff and Associates, and they have also consulted extensively with the team that is working on the government's Knowledge Management Strategy, again to try to make sure that these initiatives are all moving forward in the same direction, aware of what one another is looking at and not coming forward with recommendations that are inconsistent. We do see a kind of a nesting of recommendations coming forward from these various reports. Thank you.

CHAIRMAN (Mr. Dent): Mr. Miltenberger.

MR. MILTENBERGER: One final question, and I will hold any further questions to later. Could you indicate the cost of this particular initiative, and was that sole sourced or public tender?

CHAIRMAN (Mr. Dent): Ms. Delancy.

MS. DELANCY: I will ask Mr. St. Germaine to confirm the cost of the Sierra contract, but it is a contract that was sole sourced. Thank you, Mr. Chairman.

CHAIRMAN (Mr. Dent): Mr. St. Germaine.

MR. ST. GERMAINE: I will have to get back to the committee on the exact amount. It is approximately $250,000 for the review process. Thank you. .

CHAIRMAN (Mr. Dent): Thank you. I will put it to committee. Ms. Delancy cannot return before 3:00 p.m. today. We are scheduled to have Mr. Koe appear in front of us at 1:30 p.m. Do Members have other questions that we need to have Ms. Delancy and Mr. St. Germaine return after 3:00 p.m. or are we concluded with chapter 3 of the Auditor General's Report?

MR. MILTENBERGER: I do not want to be the only one asking questions, so I can always wait until I have other opportunities.

CHAIRMAN (Mr. Dent): It sounds like we are concluded chapter 3 at this time. Ms. Delancy, Mr. St. Germaine, thank you for your attendance at committee. We will be following up though with regard to perhaps an interim briefing with Mr. Cuff. I will ask our committee staff to discuss with you the potential for a mutually convenient time for us to do that. Thank you.

MS. DELANCY: Thank you.

CHAIRMAN (Mr. Dent): For the committee, we are recessed until 1:30 p.m. at which time we are scheduled to have Mr. Koe present to go through chapter 4 of the Auditor General's Report.

— Break

Chapter 4: Northwest Territories Development Corporation

CHAIRMAN (Mr. Dent): I will call the standing committee back to order. We are on chapter 4 of the Auditor General's Report now, which focuses on the other audit observations, the NWT Development Corporation. We have with us Mr. Fred Koe, who is the president of the NWT Development Corporation. Perhaps, Mr. Koe, if you have any comments that you would care to make on chapter 4 before Members ask you questions, this would now be the opportunity that you have.

MR. KOE: Thank you, Mr. Chairman. Just a few general comments. I think the management responses in the document prepared in relation to the observations and recommendations still are valid. As you know, and as we have mentioned in several sessions with you, over the past two years there has been a significant cleanup, if you want to accept that word, of the corporation in terms of its policies and procedures and just the way we do business. Most of the committees, policies and the criteria we use for making investment decisions are all in place. The responses we put into the document are valid, and I think we are up to speed.

The issues with the one company, the analysis and decisions were made before my time, and we are still trying to deal with the company. It is a going concern and they are making payments, albeit periodically. We have agreement with them on the terms of their repayment schedule, and we are monitoring the company very closely. We have one business advisor that works very closely with the company. We think things are on track. I am pleased to say that our relationships have vastly improved with the Auditor General's office, and we are working very closely with the Comptroller General's office and trying to keep up to speed on what we do and our reporting.

The outstanding item that we have to catch up on is still the annual report for last year, and we are just waiting for the translated financial statements. They have been signed, I think they are in transit. Once we get that, we will be tabling last year's annual report.

CHAIRMAN (Mr. Dent): Thank you, Mr. Koe. Do Members have any questions for Mr. Koe based on chapter 4 of the Auditor General's Report? Mr. Bell.

MR. BELL: Thank you. I wanted to ask Mr. Koe about the rationale that the DevCorp used in applying to FMBS to increase the subsidy allowable for job creation, from the $10,000 criteria to $25,000, to give some more room for job creation. I know that is now a matter of regulation and not just a record of decision. Could he tell us a little bit about how they arrived at $25,000 and whether or not he figures this is a reasonable amount now given that we know that we had some reporting problems in the past and a difficult time being able to define what a job was and how to measure how many jobs were being created, and whether or not we were even meeting the $10,000 criteria initially. I think all indications were that we were not, but do we have a feeling now that we will be able to comply with the $25,000 regulation?

CHAIRMAN (Mr. Dent): Thank you. Mr. Koe.

MR. KOE: The analysis that was used to determine what the value of a job was, was a long drawn-out one that took a good year and a half to come with the $25,000 number. It was based on the numbers used for income support and the numbers used for housing rent, the numbers used at community levels for both of those things. We tried to come up with a number that seemed rational, and the $25,000 seemed to fit in between the high end of about $30,000 to a low end of about $15,000. That is about as scientific as we can get at this stage.

The $25,000 number now, other than Arctic Canada Trading, fits in with all our numbers of the jobs we do employ, the people we do employ, and the numbers we have for our businesses. In this year's annual report and financial statements, we do show the numbers of jobs that are created for each enterprise, and that would be when we table the annual report.

CHAIRMAN (Mr. Dent): Thank you. Mr. Bell.

MR. BELL: Thank you, and I thank Mr. Koe for that answer. He indicated that various things were looked at such as income support levels, housing rents, these kinds of things. Can he just back up from there and talk a little bit about the kinds of things they looked at, more in line with the process used to determine that these subsidy amounts were not adequate? Were there indications that the $10,000 was way out of the ball park and was really insufficient? I guess the kinds of things I am looking for were maybe the number of times that FMBS was approached to have the $10,000 waived because it was considered to be too low, and some of these things, during his tenure with the DevCorp, if he is aware of any of these kinds of situations.

CHAIRMAN (Mr. Dent): Thank you. Just before I go to Mr. Koe, for the record Mr. Nitah has joined the committee this afternoon. Mr. Koe.

MR. KOE: All I can speak to are the years I have been there. I am not sure what processes were used prior. I know there was inadequate reporting going on. Since I have been there, we have prepared, on time, the corporate plans. In the corporate plans, business by business, we do identify the subsidy and we do identify the numbers of jobs. In my tenure we have identified where we were over in the last corporate plan, and that was Fort McPherson and Arctic Canada Trading. All the other companies were within the guidelines.

Again, it is very difficult to say with any scientific reasoning or real economic analysis that the $25,000 was a perfect number. It was a hybrid of different numbers and different analysis, and it seems to fit in with the rent and income support criteria that they use.

CHAIRMAN (Mr. Dent): Mr. Bell.

MR. BELL: Thank you, just a last question on this for clarification. When you indicate that Fort McPherson Tent and Canvas and Arctic Trading Company were the only two that did not meet the subsidy criteria, or the subsidy ceiling, do you mean $10,000 or the $25,000?

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: The $10,000 number was what I was using. For this year the only subsidiary that is over the $25,000 limit that has come into effect now is Arctic Canada Trading. They only have three employees.

CHAIRMAN (Mr. Dent): Thank you. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. One of the concerns raised by the Auditor General in his report is the lateness in which the annual public accounts are tabled by the government. We heard from the secretary to the Financial Management Board that one of the reasons that things take an extended period of time is that the consolidated entities, of which the DevCorp is one, have some difficulty in some cases in complying with the 90 day requirement to have their financial statements in.

I just wanted to ask, in terms of that particular issue since as a body we would be interested in getting these public accounts in a more timely and current fashion, is that a problem with the NWT DevCorp? If it is, how would you see being able to tighten up that particular process so that the information is there? The government has indicated that if they had all the consolidated and desired information they would in fact be able to give us the public accounts in a more timely fashion. Thank you.

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: Thank you. The corporation owns nine subsidiary companies and each is an individual stand-alone company and each has its own audit done. Once those are done, then we can consolidate those numbers into the corporation's consolidated statements. The last two years we have now instigated a process where we have hired one company to do all the audits for all our subsidiaries and for the corporation. In that arrangement, we have set the time frame that they have these done by June 1st.

Our Act says that we have to have the consolidated statements done and audited by OAG's office by the end of June, 90 days after the year-end. The process of doing our audits and doing our consolidation, and getting that information to the OAG's office, then the OAG has to bring their team in to do their audit within the 90-day time frame, we have not made that deadline once in ten years. Even though we now have new processes, we expect to have the statements out by the end of May, that still does not give us enough time to go through the whole process. We are allowed a 60-day extension to September 1st, if the Minister of Finance agrees. Each year we apply for that extension, and even this year we are still behind in terms of being late again for a submission.

It is a complicated process and one involving many parties, and we are trying to streamline it. We are working, as I mentioned earlier, with the OAG's office to try to work out some of these issues. We changed our system of reporting, and we have some issues with that with the OAG and we have worked through those. Hopefully, this year it is going to be a smoother process and more timely. The 90 days in the Act is still a very, very tight time frame.

CHAIRMAN (Mr. Dent): Thank you. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. Mr. Koe indicated that he is working with the OAG's office. The question I would pose, if you had to design a process to give you enough time to do that within 90 days, what would you add or change? Is it a question of more staff, it is just too complex and it is physically impossible to get all these subsidiaries to come through with their audited statements before you can do yours? I am looking at a way to see - as your process feeds into the broader process are there realistic ways to allow you to meet that particular time line? Thank you.

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: As I mentioned, this year the auditors are at work now, they are on site in most businesses. Inventories were done on March 31st of each business. As part of that, the auditors also start their process. The arrangement we have with the company is that they will be at each business where we need inventories taken, or have a process that they have accepted. They started this last year, except the process we use to do inventory was a key component of our whole statements and our audit verification process. Those are underway and we expect by the end of this month they are supposed to have their initial drafts into us.

Then we have a process. Each company, as I mentioned, is an independent company and has its own board of directors, so once we get the audit statements they go to those companies and then they come back to our board. It is accepted by our board.

It is just a time thing. We are trying to get them, as I mentioned, by the end of May to the OAG's office, then they have to get their team in place, and then on-site to do their audit. I do not know if it is physically possible to meet the 90 days the way the process is established now. The 90 days was set when the Act was established ten years ago.

CHAIRMAN (Mr. Dent): It sounds like you are going to meet 60 days. It is just a question now of whether or not the Auditor General's office can verify the results in a period of 30 days. Mr. Simpson, is that going to be a reasonable expectation, or is it possible?

MR. SIMPSON: Thank you, Mr. Chairman. I think there are a number of contingent things. Obviously getting the subsidiary audits done and finalized by a date is always an interesting goal. Then the corporation has to go through its own accounting to prepare financial statements for DevCorp, and then of course we have to audit this. If all of those things clicked into place without any hiccups, in theory it should be capable of being done, not in 90 days, 90 days is a little bit tight given the circumstances, but certainly within the 90 days plus the additional 60 that Mr. Koe referred to under FAA.

Last year we spent a lot of time arguing – not arguing, discussing—well, I guess arguing would probably be a good word—accounting treatments. Once you get into these sort of more intellectual discussions on what is the appropriate form of accounting and both sides are going away studying these things, that can burn up a lot of time. Hopefully most of those kinds of issues are resolved and we should not, hopefully, have them in the future. That I think has the potential to shave off two or three months from the schedule of when we start our audit to when we issue our opinion.

All things being equal, it then comes down to all of these pieces of the jigsaw puzzle, do they fit in the times that are theoretically possible or not, and then we run into the very practical problem of do we have the staff at a given point in time bearing in mind that all of the other audits are based on a March 31 year end as well. We sometimes run into logistics problems in terms of being able to meet really, really stringent deadlines.

Having said that, as Mr. Koe mentioned, we are working closely together to try and streamline process. I think for this next year you will see a significant improvement in timeliness. I would not want to guarantee that it would be within 90 days.

CHAIRMAN (Mr. Dent): Thank you. Mr. Miltenberger.

MR. MILTENBERGER: On a different issue, the Auditor General makes considerable reference to the business transactions as it pertains to one particular business. There are some fairly significant comments made. I have a two-prong question. Mr. Koe touched briefly on the fact that this issue is under control and that the corporation or business involved was making payments. I was wondering if you could just speak a bit more to exactly how they managed to rectify and clean things up and deal with that on the business side.

The other question would be, I think Mr. Koe might have touched on this as well, that they have reinstituted the Investment Review Committee, and I would just be interested to know if you could speak a bit as well about what they have done and how they have set it up so that they can get the level of analysis and documented review that the Auditor General has indicated is critical when you are dealing with these kinds of ventures and investments. Thank you.

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: There are two pretty heavy questions there. We will deal with the company in question first. I think the historical data is pretty clear in here. There was a major undertaking and a major business transaction where the corporation invested with funds from the Aurora Fund, borrowing funds from the Aurora Fund to invest in this company. The facts are fairly clear in here where we owe money on a monthly basis to the managers of the Aurora Fund. We pay whether or not we get paid or not from the company.

In our budgeting, we make allowances for making those payments. The deal was a five year arrangement, but even at the end of five years the company will still be owing us a certain amount of money even though we would have paid down the Aurora Fund. So, we had to make contingencies for that.

The company has undergone several reviews, several management reviews, several audits, and they have also undergone some major changes in the types of business they are doing. When this business transaction took place, they were basically doing winter work – oil and gas exploration and doing winter roads. Since then, they now have a major joint venture and contract with Esso in Norman Wells, so now they have year-round work. Before they did not. They have also expanded their oil and gas activities in the Sahtu and they are joint venturing with other companies. Their revenues have increased significantly and we have worked out a repayment schedule, a blended schedule. They also owe money to the Business Credit Corporation and we had to work with them to make sure they were both able to meet the obligations to both of us.

That is what is happening with the company. As I said, they are still an oil and gas industry, they start in November or December depending on the ice and high ball it for December, January, February, and March. Their invoices go out a month late and their payments are about two months late, so it took major influxes of cash about now. We may get one or two extra payments. We work those out and we have that arrangement with them. As I mentioned, because we have to make our obligatory payments to the Aurora Fund, we have set aside that money in our financial forecast and our statements.

In terms of the investment committee, and the process for analysis. All of the committees have been established, each has a set terms of reference and we now have, for the past two years, the investment and divestment guidelines. Those are the criteria that we as managers or staff use when we are assessing applications for funding.

We also have a process where, because of our limited numbers of people, we only have eight people on staff, we have an arrangement with various companies where if we get a major, or anything over $50,000-$100,000 we get an application and we ask the company to assist us in doing an evaluation, to get an outside opinion on the merits based on our criteria. They give us that assessment. We then take it to our investment committee who has to make a recommendation to the main board. The main board then makes a decision. That is the process and it seems to be working at this stage.

CHAIRMAN (Mr. Dent): Thank you. Mr. Bell.

MR. BELL: Thank you. In the report the Auditor General makes some observations. In the area of reporting and accountability it provides us with some background. I will go over just a bit of it briefly, but the auditor indicates that when the corporation was created in 1990 it came with some high expectations. One of these was to provide economic opportunities by investing in companies. It was the hope that these profitable entities, or that these entities would be profitable and then they could in turn be sold to the private sector.

Over the history of the corporation, the last ten or 11 years, we spent $55 million on investments and subsidies in a wide variety of industries. It says that only one viable subsidiary that the corporation is hoping to sell has been successful.

I am wondering, going forward, if the initial hopes that we had, Mr. Koe might be able to comment on this, were realistic. Obviously we have seen some management problems, but in the next ten years, from here on in, are we looking to set up some benchmarks and some goals for the number of viable subsidiaries that we might want to invest in and have some plans for trying to find a way to sell them to the private sector?

I am wondering if we analyze some of these companies and say, it is either time for them to sink or swim, maybe there was a viable business case or we thought there was at the time for this company but there is not any more, maybe the market has moved, maybe we do not need to pull out of the community per sae, but take that money that we have been spending in that industry, keep it in the same community but try a new industry that seems to be more promising. Something that we have higher hopes for.

I guess at times you have to realize that there were some sunk costs here and you might not get your money back in some of these areas, but we might take a more realistic shot in a different industry. I am wondering if Mr. Koe can comment on going forward the next ten years as to what the vision and mission is likely to be and how he sees this coming about.

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: As we all know, things have changed. The economics and the dynamics of communities, the dynamics of doing business has changed drastically with the modern transportation and technology. The need for more educated and trained people, yet we still have to try to manage and run these businesses in the environment that we are in, in the North – high transportation costs and high expectations of wages. We are competing in all our businesses in a global environment were manufacturing costs are much, much cheaper, closer to where the markets are.

In cases of the fur industry, your labour costs for manufacturing are much cheaper overseas, where most North American companies get their products produced. They are paying two to three dollars per day, whereas we are trying to pay nine, ten, 11 dollars an hour. It is very difficult to compete.

The companies that were set up over the past few years, we have closed some. We are reevaluating the business as to whether we can restart them on a viable vein. It is again, very difficult. We know that, based on our act and our criteria there are subsidies, yet our board is very critical in what we do invest in, and what companies we reopen, because they want to see these things become viable or be able to be shared, partnered or sold to other organizations in the community.

They have given me a mandate to try to find new partners, find new investors in all of our subsidiary companies. We have been doing that. We have made overtures to each organization, the aboriginal organizations, the development corporations, all private businesses located in the community or in the region to see if they are interested in partnering or taking some ownership in these businesses. There are offers out there, negotiations or discussions with them, and we are trying to do that.

As for viability, pure profit and loss, it is going to take some time to turn most of these companies around to become profitable as we know profitability without providing a subsidy. Also our guidelines or targets are to try to reduce the level of subsidies each year. That is one of our criteria, without impacting the levels of employment.

CHAIRMAN (Mr. Dent): Thank you. Mr. Bell.

MR. BELL: Is that one of the criteria when you are looking at possibly brokering a deal to sell one of the entities to another organization or to the private sector, would one of the criteria be that "we will sell you this company, this subsidiary, but you have to maintain the current levels of employment that we have." Because if that is one of the criteria, that may be something that is not realistic for the private sector, it may be one of the things hindering us from being able to sell some of these entities.

Clearly, the DevCorp is willing to accept that there are certain subsidies for positions created. I do not think the private sector is willing to accept some of those things. We may have to sell some of these entities for less than a profitable going concern would be able to fetch in the market. I am wondering if that indeed is one of the criteria looked at when we talk about selling one of these entities, that the level of employment be maintained.

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: Obviously we have to look at all aspects of managing and running these businesses. Our interest is to maintain them as a going concern. If they are a going concern, they do provide the employment. We are trying to work outside the box but keep within our act and our rules and regulations as set by FMB in terms of how we do these divestments. If we are going to sell an asset below the accepted valuation of the asset then we have to get FMB approval, so recognizing that, we are trying to make deals.

You are right, in terms of a business person, knowing that we subsidize companies, and knowing the company is not profitable in a true sense of a profit and loss statement, it is very difficult to make a pure business deal based on the merits of that company.

We believe most of them have potential and we are working on that potential. We are working on the marketing of our products, and that has been a thing we have not put a lot of money and effort into over the past year. We are refocusing how we are doing business, where we are doing business, and where we are putting our energies into the marketing of our products.

CHAIRMAN (Mr. Dent): Thank you. Mr. Krutko.

MR. KRUTKO: I have a question in regard to the number of loans that were given to this one company and the Northwest Territories Business Credit

Corporation (BCC) and also the Aurora Fund. My concern is more in light of the security of the asset, to secure the loan. Knowing there were three different loans or financial institutions of this government fronting one company, I would like to know if that is the practice of this government, where you are able to get all of these loans without have the risk associated with it by having to secure an asset. Now there are three different agencies going after assets of the company through equipment or buildings.

I would like to ask, how exactly was this security against the loans done? Is that the way it is done, that you have all of these loans and you can go to three different pots and have the ability to not secure the asset, which is being paid out from three different pots?

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: I cannot speak for the Business Credit Corporation and how they do their analysis or the criteria they use for security. From our point of view, or our corporation's point of view, we invested money in the company in exchange for preferred shares. Basically that is our security, it is based on the business and the assessment done at the time. We do not have security like the bank does for a loan – we do not take your car and we cannot seize the assets of the company. We are just preferred shareholders. Common shareholders have a few more rights than we do. That is the type of transaction.

CHAIRMAN (Mr. Dent): Mr. Krutko.

MR. KRUTKO: That is the other concern I have. Being a shareholder of a corporation or a company, by redeeming shares against the asset and receiving a loan from say the Aurora Fund, basically the government is in the business of accessing government grants to promote your shares. It sounds a little fishy to be able to access the Aurora Fund, which is a foreign investment fund in which the government is now getting funds for a company which they hold shares in or have an investment in. It is supposed to be a public fund, accessed by public business. Now the government is into the business of competing against the private sector by accessing those funds.

Is that the route that the department takes, where you are able to access funds such as the Aurora Fund which has lapsed, but now we find we have a security in which this government was paying somewhere in the range of $27,000 to pay off the loan from the Aurora Fund. Is that the common practice of the department in regard to how they get into business and access all of these different funding sources, knowing they share equity in a company?

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: Well, I can say it is not common practice, it is just a one-time business transaction and that is the only one where the corporation has used Aurora Fund money. The funds from the Aurora Fund are guaranteed by the corporation. That is why we make the monthly payments, we pay back the Aurora Fund. If anyone is in default, it is our obligation to pay off the Aurora Fund. That is the arrangement. The corporation in turn has made a business deal with the company, and they in turn pay us. We have to budget for each month to make our obligation to the Aurora Fund.

CHAIRMAN (Mr. Dent): The subtext that I hear there is that there would never be such an arrangement made again. Mr. Koe.

MR. KOE: There is no more Aurora Fund, as I know. I am not sure what the time frame is. Our arrangement was for five years, so we would pay off the Aurora Fund for this amount of money over the five years.

CHAIRMAN (Mr. Dent): Mr. Krutko.

MR. KRUTKO: In regard to the fund and your accumulating interest on that, I believe seven percent, is that charged back to the company or the corporation to ensure that after you pay it out over a five year period, do you commit the interest plus the principle of the loan, which will be paid back by the corporation? What is the time line for having that paid back, knowing they have also received other loans from other agencies, not only this one. We are talking about $1.4 million, I believe.

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: I do not have all of the numbers in front of me on the arrangements, but I believe they will continue to pay us back I think two years after the five year term, so I think it is a seven-year agreement. They are paying us interest and that is the money that hopefully we would count as profit towards the corporation once the full payment is made to the corporation.

CHAIRMAN (Mr. Dent): So you are charging interest in excess of what is being paid by the corporation in the loan payments?

MR. KOE: Yes, but it is blended over seven years, not five.

CHAIRMAN (Mr. Dent): Thank you. Mr. Krutko.

MR. KRUTKO: Just to get clarification, how many other investments has this government been in or companies that broached the BCC to access loans where the government takes a security in the way of shares? Do you have other such arrangements with other companies with regard to having a share equity in the company? How long is it before those shares are either redeemable or paid out?

CHAIRMAN (Mr. Dent): I believe, Mr. Krutko, you meant the Northwest Territories Development Corporation? Mr. Koe is not with the Business Credit Corporation. I think he can answer the question for one but not the other. Mr. Koe.

MR. KOE: All of our subsidiary companies are wholly or partially owned by the Development Corporation. As long as we own 51 percent of the preferred shares, we can call it a subsidiary. So, Fort McPherson is 100 percent owned by us, we own 100 percent of the shares. Akaitcho Dene in Fort Liard we own 100 percent, Arctic Canada we own 100 percent, Muskox Leather is a company that is 49 percent owned by the Inuvialuit and 51 percent owned by us. Nahanni Butte is 49 percent owned by the community corporation, 51 percent of us. None of these have loans similar to this company. This company that is in question is not a subsidiary company, it is a venture company where we, in exchange for our money, we purchased preferred shares in the company. We have 13 other venture companies like this, but only one other company has a loan arrangement, and that is the Co-op Store in Rae-Edzo.

CHAIRMAN (Mr. Dent): I will come back to you Mr. Krutko, we will move around to some other Members for another go. Mr. Braden.

MR. BRADEN: Thank you, Mr. Chairman. To follow through on a line of questioning that Mr. Bell had a few minutes ago, I am interested in looking at some of the fundamentals of what would indicate a successful venture on the part of the DevCorp getting involved in something, or as circumstances may prove out, a venture that is not successful and could or should be shut down.

I guess in the sense of, I wanted to ask Mr. Koe what kind of criteria are in place that would give the board of the Development Corporation a threshold upon which to make a decision. The decision, on one extreme, could be okay. This company is performing to a certain level and should be turned over to the private market, DevCorp should get out of it, there is no need to continue to subsidize it.

On the other hand, what kind of criteria are in place that would indicate there is a certain venture that has been going on for a certain period of time, it is not meeting any realistic chance of success, and we are going to fold our tent on this one.

So what kind of criteria or threshold does the corporation have that indicates success and move forward, or failure, so let us cut our losses and get out. Thank you.

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: The basic guidelines, up to now, up to the change and the coming to force of the regulations was that the threshold we used was $10,000 per job. So, if a subsidiary was able to hire ten people and keep them maintained reasonable full-time, then we provided a subsidy of $100,000. That was considered a success, and it met the criteria in terms of capital investment, it was set at $10,000 per job. That is still in place.

That was a basic guideline. Over the past two years, we have done a lot of soul searching. As I mentioned, we have set criteria. We have done a lot of analysis.

We have had some socio-economic analysis done for Fort McPherson, for example, as to what the benefits are of maintaining the company in that community.

The board of directors for the corporation are still wrestling with the issue you have mentioned here: how do you measure success and how do you measure failure? We have shut down temporarily, Aklavik-Tuk Furs because it was costing us much more money than what the criteria allowed for. We have shut down Dene Fur Clouds on a temporarily basis until we could do a proper analysis of the real cost. We had reevaluated our other businesses in terms of what they are doing and the cost to the corporation.

Of course, our other threshold is our budget. That is approved annually. We get a contribution of $2.7 million from this Assembly through the Department of Resources, Wildlife and Economic Development. Our whole operation has to fit within that threshold.

We have been doing ongoing analysis. We are still trying to determine what should we keep, what should we reopen, what should we keep closed. We are also now looking at where should we invest in? Are there communities out there where there are opportunities that we can partner with or go into a community and set something up. It is an ongoing process. For the last two years, we have spent a lot of time on the accountability, the legal aspects, the reporting, just to make sure we were within the rules and regulations and all the criteria that was set up or was reestablished.

It has been only now in the last five or six months that the board has started to focus on looking at where we have been, where we are at and where should we be going. Through business planning process, again, that has been instigated now in the last two years, each subsidiary has to prepare a business plan. We have set up our own cycle to do that. They have to justify their existence to the board. Each company has a business plan. Within the business plan there are marketing plans, production plans, training plans, a comprehensive plan to keep the business. That is a going concern.

There has been a lot of work put in through the board, through the committees, to the companies, and to the company boards of directors. We feel that by reporting now, the numbers of jobs...I think we have met that obligation. It shows. Once we come up with a formal document on how to calculate a job -- we are just finalizing that -- then we can measure indirect jobs and direct jobs so we can come up with a more accurate cost.

When I say Arctic Canada, at this stage, is above the criteria set in a true sense...if you just take the direct job, there are three direct jobs of $25,000, their subsidy should be $75,000. They are getting $350,000. About $150,000 is spent on buying product from individual artists or producers, so we do not take that. Once we come up with a formula on how to measure that, then we can justify the majority of our funds in terms of the money that we get for operations. We are working at it. The successes are we are meeting and still providing a going concern and people are showing up for work, we are making products, products are being sold, and we are contributing to the economy of a community or region.

CHAIRMAN (Mr. Dent): You had your hand up, Mr. Braden? Mr. Braden.

MR. BRADEN: Contributing to the economy and the employment of a region is certainly one area of the DevCorp's responsibility that I understand. I guess I am looking for a bit more of a sense of where the corporation's responsibility lies in assessing the viability of a given venture, then whether it should continue, as it may seem on an ongoing basis, to just keep putting a subsidy in as a way of contributing to jobs and employment and the economy of a region, as opposed to actually creating a viable, free standing enterprise.

That is a perception that I have of what the DevCorp is expected to do. I guess I am looking at a statement of objectives on page 271 in the report here. There is a paragraph called operations that essentially outlines that the DevCorp is here to invest or operate enterprises in accordance with the economic objectives of the government, create employment and income opportunities, stimulate growth of business.

The line I guess I find most interesting in this sense is that it is the intention of the corporation to divest itself of its subsidiary investments once the subsidiary has attained a sustainable level of profitability.

That has sort of what prompted my question about criteria. What is the criteria for a sustainable operation? Should the corporation cut loose or say "We are not getting anywhere. We will not." It is that ongoing level.

It was interesting here that perhaps…I am wondering if there was something that is missing, by accident or not. It is the intention of the corporation to divest itself once the subsidiary has attained a sustainable level of profitability. That says to me that we are going to stick with this thing come hell or high water, good, bad or otherwise. We are stuck with a given enterprise. I would like to see something in there that also says the corporation would divest itself, given that here is no future hope of success for an enterprise.

That is where I was wondering about the criteria by which you would say this is gone, this is over. I wanted to ask the question, how many enterprises do you know of, Mr. Koe, that the corporation has actually shut down and said okay, it is not on? Or has everything that the corporation has become involved in still active in some way or another?

CHAIRMAN (Mr. Dent): Other than the sawmill? Mr. Koe.

MR. KOE: Yes, I understand the issue. As I mentioned, the board has been wrestling with this issue of the socio-economic side of running businesses or the pure business sense of running a business. It is not an easy one. Our act allows us to do these. This is why we are in this business.

In terms of what have we shut down? The major one was the Fort Resolution sawmill. We made a decision that $1 million per year subsidy to keep 20 people employed did not make sense. The decision -- it was not that simple, but the decision was made to close it down. We are still working through that process.

Another one that we have shut down was the business that was established in Lutselk'e called Dene Creations. We have a building there with machinery, but there was no plan for product, what products to make. We could not hire people to work there. Again, the decision was made to shut down.

The other one that we shut down was the Aklavik Tuk Furs, because it was costing us much more to maintain the business than what our criteria allowed, plus there was no business plan set. The future was not thought out in terms of those businesses, so we shut them down. We now are in the process of reevaluating to look at whether we can reasonably open them within the criteria.

Off the top, those are three that I know of. I am not sure what happened prior to that.

CHAIRMAN (Mr. Dent): Mr. Braden.

MR. BRADEN: Given the kind of economies that are emerging now in the Northwest Territories -- we have what could be called a fairly hot economy -- is the DevCorp looking at where best could its resources and its mandate be placed in terms of either supporting the development of secondary or tertiary kinds of businesses related to diamonds, oil and gas, and potentially hydro? Are we going to be consistent with what would seem to be a fairly diverse kind of portfolio, as indicated on one page here, page 286, we are into foods, manufacturing, arts and souvenirs, lumber retail, more of the nuts and bolts of society.

Do you anticipate that the DevCorp is going to be more involved with these new emerging economies that we have up here? Thank you, Mr. Chairman.

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: ...a corporate plan for this year. We have set aside monies to try to reestablish Aklavik Tuk Furs. We have also set aside money to reestablish Dene Fur Clouds in Fort Providence. As of April 1st, it is going to be a going business again. Other than those two, in our existing portfolio of subsidiary companies, we have no others on the books or in the works. The focus of the board now has been to put money aside for more joint ventures, investing in more joint ventures to try to meet the demands, the different demands.

A joint venture arrangement is where we would buy preferred shares in the company. In exchange, we would give the company money that they could use for equity. For example, we just signed a new arrangement with ADK Petroleum Limited. We are investing money into a drilling rig in the Akita Drilling Company, joint venturing with the Fort Liard community. That is a new one for us. It is being touted as a model for future arrangements.

Again, we are limited by our money. We have set aside a million dollars. We had a million dollars for that last year. We have set aside a million dollars this year. We are carrying over about $500,000. The corporation has about $1.5 million for new venture investments this coming year. We are in business to look at these, look at where the need is. It is difficult to go out and solicit business. We try to advertise as best as possible in our own way, through this committee, through your roles as MLAs, through discussions with other community leaders and business leaders in the communities and regions.

It is evolving. We are changing. As you know, the work that is required to maintain subsidiary companies is quite tedious and takes a lot of effort, a lot of manpower, a lot of time to keep them going. I would rather as a personal thing, and something the board likes too, is if we can invest in companies that can manage themselves we would provide support where needed such as is business advice. In a lot of cases we are helping to keep them going as going concerns because not all our investments are good investments, I can say. I have to clarify that, the past regime.

CHAIRMAN (Mr. Dent): Mr. Braden, this is your last question before I move on to the next person on the list. Mr. Braden.

MR. BRADEN: How many of the businesses in the portfolio now are properly handled as business entities? Are there some that would be better off as non-profit societies or something like that that could use a leg up, just purely as job creation things? The thing I have difficulty with, Mr. Chairman, is that in some cases being asked to assess or cast some kind of judgment on enterprises that really do not seem to have a lot of viability from a straight business point of view. From Mr. Koe's point of view, is there some part of the portfolio here that are still legitimate in the sense of what they do in a given economy or region, but they do not really belong in a business portfolio? Thank you.

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: Before I answer that, I guess we have to look at the history of these businesses. They were established basically a long time ago in terms of small economic projects to create employment. When the corporation came into existence, these companies were transferred from the Department of Economic Development as projects into the corporation and they then became subsidiary companies. Yes, in most cases the sewing businesses were arts and crafts businesses and were sewing societies or groups of people that got together and then, through good economic development, people thought they could be run as businesses. This is what we have inherited.

The business in Liard is managed by a group of women that belong to a sewing society. The same in Aklavik and Tuktoyaktuk. They are different versions of people that wanted to sew and, again, through the good judgment of different people that helped them, they are now so-called businesses. Yes, it is very difficult to say if these are going to be viable. We know it is going to be difficult and we have to make a decision. If we wanted to open Tuktoyaktuk or Aklavik today, our assessment says that it would cost us $560,000 with no possible returns for two or three years. But that is going to put 20 to 30 people to work.

We have to assess and we get pressures from different levels as to what is best. It is up to our board to make a decision that is going to first off meet our criteria, and meet our obligations and roles, plus try to satisfy the wills and whims of differing pressures from other groups or people that put pressure on us to do business, even though we know it is going to be very tough to make it viable.

We are also working, as I mentioned, with all our businesses, we have potential partners. It is just a matter of working with them and trying to make some kind of good arrangement that is going to be satisfactory for all parties to make a deal. They still treat some of these as old government projects and they consider us as government and threaten us that we are not going to pull out. That is not a good way to do business, but we are fulfilling that socio-economic need there.

The only profitable business is the Rae Lakes general store. It is a small community, and it makes about $20,000 a year. It is very difficult for an investor to come in and spend three or four hundred thousand dollars knowing that they are going to make $25,000 a year.

CHAIRMAN (Mr. Dent): Thank you. Mr. Delorey.

MR. DELOREY: Thank you, Mr. Chairman. I had a few questions but most of them have been touched on, basically to do with this whole area of accountability and where the DevCorp is going. I guess probably the question has been asked in many ways. How many businesses did DevCorp get involved in getting set up, and how many do they continue to subsidize today that, without the subsidy, would just not survive as a business?

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: All of them. I would just put a qualification on the Rae Lakes store. The way the corporation has been doing business, when we invest in capital assets we write the capital assets off over five years, which is not normal. It is 20 or 25 years. The asset is then written down, and it is not on the books as an asset even though it is there and paid for. In the case of the Rae Lakes store, they have an annual resupply. Right now there are trucks going in, and it costs the business $200,000. The business does not have $200,000, so the corporation fronts that money for them. If they were an individual business, somewhere they are going to have to get money to pay the mortgage, and somewhere they are going to have to get financing to cover their annual resupply. When you take those costs into consideration, all of a sudden it is a marginal business.

We have to differentiate between our subsidiary companies, the ones where we wholly own, or we own 51 percent or more, and our venture companies, where we are just a venture partner. We have 14 of those companies. A lot of them are not viable businesses also.

CHAIRMAN (Mr. Dent): Mr. Delorey.

MR. DELOREY: Thank you. I guess it is good to hear that the DevCorp is trying to make improvements in a lot of areas and get businesses up to where they might be profitable or viable. How much of it is driven by, say, yourself running DevCorp, and your staff, as to what businesses you are going to be getting involved in and creating, as far as being viable businesses in the North, and how much of it is government driven where you are being encouraged or whatever to deal with certain businesses?

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: It is basically customers or clientele coming to us. If they have a good proposal then we discuss with them their potential, and we either encourage them or not, or try to set up with them the best way to proceed with their ideas. It is basically first-come first-served. As I mentioned, we have $1.5 million, and once that is gone, we are not closed for business, but we then enter into a monitoring mode. We try, we send out advertising in the sense of brochures and applications to all the community business corporations, chambers, economic development officers, whoever is in the business of advising or looking for business opportunities. We now have a website up, and things like this, we are doing to promote our service and promote what we have to offer.

CHAIRMAN (Mr. Dent): Mr. Delorey.

MR. DELOREY: Do I take it from that then that the business proposals that you look at as far as a business development corporation is concerned, you are getting more stringent as to what kind of business they have and what kind of a business proposal they have, what possibilities they have to succeed as a business? Are we still going to look at businesses that we basically know we are going to subsidizing indefinitely?

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: I can say that based on the past two years with our criteria we have totally changed the way the corporation is doing business. We are very stringent in terms of our analysis and assessment, and very stringent in where we are putting our money. It is a major turnover and a major change in the corporate thinking, and the way the corporation is doing business today, a change to the good.

CHAIRMAN (Mr. Dent): Mr. Delorey.

MR. DELOREY: I am glad to hear that, that there is change to the good. As far as yourself running the DevCorp, has there been any change or shift in compliance put on yourself. If you were a bank manager and continuously making loans to businesses that do not succeed, I would suspect that they would not be there, there would be a price to pay for that. As far as the DevCorp is concerned, are there any compliance rules for yourself or for the board?

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: I guess I am in a position where I report to two bosses. One I report to the Minister, and through the Minister to the Executive Council, which is Cabinet. I also report to the board of directors. Based on direction, the act says that the corporation takes direction from the board and also may take direction from the Minister. So, hopefully, it has been a good relationship over the last two years because both have been talking and agreeing and the Minister has been supporting the work of the board of directors. If we get into a situation where they are not talking or not agreeing or not knowing what each other is doing, I can see us getting back into problems similar to where we have come from.

It has been my role to try to straighten it out and work with the board and work with the different authorities so that these things do not happen again, and that the guidelines and criteria are in place so that it does not matter who comes in.

It is there and the succession is going to be in place so that we follow the same rules from one day to the next. It is not because of me and who I like or who I know. It is based on the criteria and there is an application and there has to be a business plan and there have to be statements, and there has to be quite a comprehensive review.

CHAIRMAN (Mr. Dent): Thank you. Mr. Bell.

MR. BELL: I wanted to go back to something that Mr. Koe said and get clarification. It was with regard to the Arctic Canada Trading Company and the subsidy. First, if we use the Rae Lakes store for example, and you have indicated that there is a $200,000 resupply yearly, maybe the store sells those goods for $300,000 so that at the end of the year we are not considering that obviously as a subsidy. It is not a subsidy, it is the cost of goods. In the case of the Arctic Canada Trading Company, you said that it is not as simple as looking at the three jobs created and saying there could be an allowance for a $75,000 subsidy here because we have crafts and things purchased. I would consider some of this inventory - you hold it, you sell it during the year, you make money on it, there is a cost of goods associated with that, but it is not a subsidy.

I wonder why that is lumped in, in the case of Arctic Canada Trading, and not lumped in, in your other entities.

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: It is the same for the other entities. The Rae Lakes store also buys crafts and inventories and then sells that. Again, the focus of the corporation has changed in that before we used to make goods, buy goods and inventory it, and try to sell it. The focus today is find a market, find what they want, then we will buy what we can sell - or it is pre-sold basically. We are not spending a lot of money on inventorying products. We are making products that we already have sales for, and it has been a real shift and change in thinking.

Arctic Canada Trading - again I do not have the financial statement with me. Their budget is about five or six hundred thousand dollars. That is the $350,000 subsidy plus the goods that they sell, the revenues they make from selling products.

CHAIRMAN (Mr. Dent): Mr. Bell.

MR. BELL: Okay, but when we look at the $420,000 in subsidies, we are just looking for a way to measure - there are three or four jobs, or whatever the number is, that have been created there and we can look at that $420,000 and decide that we are paying x number of dollars per job, when we are targeting $25,000 per job. I was hoping it was as simple as that because we are trying to compare the various different entities to see which ones are successful, but if there are other factors that come into play here. You indicated that it was not just that simple because there is product purchased in there that sort of clouds this $420,000 from being the real number we need to be measuring. Is that the case, or is this $420,000 really the number we need to look at? I did not quite understand that. Thank you.

CHAIRMAN (Mr. Dent): The cottage industry, I think, is the issue here. How many jobs are being supported through that subsidy that way. Mr. Koe.

MR. KOE: That will be the criteria. Once we have agreed on the method to determine a job calculation value, we have to determine a value of cottage work or piece work. That is where we put a lot of our money into. Fort Liard, for example, buys birch bark baskets from producers and they pay them a certain amount of money. Part of that money goes in there as a cost of goods, and then we sell it. All we can measure is the subsidy we give them, but our budget is based on our subsidy plus what they are able to sell. The budget is significantly higher than the numbers you see.

CHAIRMAN (Mr. Dent): The trading company cannot get enough of a markup to make a go of it as a commercial venture, so it is not able to get a standard retail markup on the product it buys, as I understand it. Mr. Krutko.

MR. KRUTKO: I was going to ask a similar question. In the 1999-2000 financial statements you do have subsidies of $420,000, four jobs created and maintained. It says four, but you mentioned there are three. Especially with regard to the Fort McPherson Canvas Shop, they used to have the ability to market their own products and produce them. Now it is given to the Canadian Arctic Trading Company. There was a lot of money spent in the past, especially setting up and getting the inventory, the warehouses. There have been all these resources. Could you give an actual breakdown of the $420,000, so we can see exactly how much is being spent on wages, how much is being spent on product, what the markup is.

In the case of the Fort McPherson Canvas Shop, it says subsidized to the tune of $160,000, jobs created 10, or maintained. In that case you can walk into an actual facility and see people working, you can see people at the reception desk, people selling the products, people cutting the material, people putting it together. There is an actual factory there where people are actually working. But in the case of the Canadian Arctic Trading Company a lot of the concern that people have is the markup costs they put on the product they are selling. It does have an affect on how you can actually market, knowing that the markup is higher - so you cannot really compete because there are the additional costs associated with the product. If you could elaborate a little bit more on that.

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: The numbers you are seeing are only the subsidies that are being provided from the DevCorp to the individual companies. As I mentioned earlier, each company has its own business plan and its own set of financial information. To run Fort McPherson, it is going to take just to open the doors more than $160,000, or any of these subsidiary companies. The budget for Fort McPherson, as of March 31, 2000, the sales in Fort McPherson were $366,000. So $366,000 plus our subsidy of $160,000 is $490,000, so half a million dollars roughly to manage that operation.

The subsidy we provide to a company is there so that the company does not go into a deficit situation. If the sales were increased more, then it would need less subsidy, and it does not mater how many jobs you create. The subsidy and the value per job is only the criteria to determine whether we are within a guideline or within a certain range. That is all it is. We still have to, as I mentioned, work on what that value is for the indirect jobs or piece work jobs. We are working on finalizing that document. The same goes for each company. Arctic Canada sales were $411,000.

CHAIRMAN (Mr. Dent): Thank you. Are there any further questions for Mr. Koe on chapter 4? Mr. Krutko.

MR. KRUTKO: I have a question with regard to the actual criteria, and the demand of the corporation to ask for a particular item to be put into a contract such as equipment. With regard to the company mentioned in the report, one of the concerns that I am aware is, part of them receiving the funds is that they had to purchase a certain piece of equipment from a certain firm in order to allocate that loan. Is that the way the corporation operates, where you actually dictate what the terms of the loan being allocated, that you have to put those kinds of conditions in those different loan agreements. In order to access $100,000 you have to be able to say, we will lend you $100,000 but you have to buy from company A. Is that practice still being continued on by the corporation?

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: Definitely no. Any company that we invest in has to come up with a business plan, and the business plan has all the criteria and processes that will be used and how to do business. They will identify their sources of supply or equipment. Our board would then evaluate this and work with the company to establish and make sure that our criteria are met, and that we still work with them and based on the business plan and proper approvals we make our business deal. Generally, once the deal is made, the company operates as if they are their own company. We may have a person on a board of directors or we may not. It just depends on location or the level of our commitment in terms of the investment. In most cases we have an option to have an individual represent us on the board of directors of each company. But with that there are a lot of legal implications.

CHAIRMAN (Mr. Dent): Thank you. Mr. Krutko.

MR. KRUTKO: The concern I have is that people are bickering about negotiated contracts and whatnot, but a corporation owned by the government having shares in a particular company bidding in the public or private sector for contracts. We have policies and different procedures in place with regard to the Business Incentive Policy. When you hear the private sector saying that it is a non-competitive process because someone has an upper hand because they receive a bunch of grants, and the corporation has shares in the company, exactly what is being done to ensure that there is a clear playing field so that people do not have the perception that there is a biased contracting process, or companies getting the upper hand because of shares being held by such as the NWT Business Credit Corporation or whoever.

I know that in the case of negotiated contracts, I have always felt that in some communities and in some cases that process is needed, but in this case where you keep talking about where you are taking preferred shares in different companies, then it goes back to the whole emphasis, are we in the business of competing against the private sector, knowing that we have shares in certain companies? Have you looked at the preferential policies to see exactly, are we inherited to that or are we putting roadblocks in the way of the private sector to compete because they do not have that access to grants, loans or Aurora Fund by a crown corporation or a business corporation?

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: It is difficult to address - I am assuming you are relating your comments to this business deal. Again, the deal was made before I came on stream. All I can tell you today is that one of our criteria is to address the area of market disruption. If there is any area where our investing in a certain venture would cause any type of market disruption we will not be investing in that business. It is in our criteria, so that is today.

CHAIRMAN (Mr. Dent): Thank you. Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. Earlier there was a question about the ten year outlook for the Development Corporation. Through this report there has been highlighted significant losses through DevCorp over the years, as in the conclusion part of the report. There has been a major shift within the last 12 months. Have there been plans put into place that would address some of the loss issues, understanding that you have ongoing commitments that will continue for some time where there is going to be a continued need for subsidies, as we see it.

As you possibly get into further and further work, or further opportunities for assistance or for subsidies by different companies coming on line, is there an emphasis in a sense, as we heard a number of times, of profitable companies that would at some time be able to stand and deliver business, and compete with other businesses, whether it is in the Northwest Territories or within Canada? There are significant numbers given that there is a $3.5 million investment done through the Development Corporation, and during the report period $2.9 million in losses, understanding significant losses of one company alone.

I asked the question of Mr. Voytilla this morning, as a government we have to look at the viability of spending dollars and the value we get from that. Unless we can start to see some of that value being either reported or shown that there is advantage to the expending of those dollars, it is going to be difficult as people continue to look at the transparency of government expenditures. Do you have comment in that area?

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: Again, we are dealing with investments that were made several years ago. There are a lot of problem areas in that existing portfolio that we have to deal with. There are more losses that will be reported, because some of the transactions did not turn out to be as viable as the first indications were when the decisions were made. That is the nature of doing business in the North. You base your decisions on information you have and the best analysis you can make at the time.

Assuming these things were done when these decisions were made, you take the risk. Our risk is buying and investing in a company in exchange for preferred shares. Two years ago we did not have criteria as we have now. Two years ago you did not have the type of stringent evaluation and assessment that we do have now. All I can say is we are in a high risk investment business, and we are there because other investors are not putting up their funds. We are in locations where the cost of doing business prohibits your normal investors to go into these places. That is part of our mandate.

If a company becomes profitable, then it is definite that we are supposed to divest it. It is very clear in the act. If it becomes profitable, and we can find someone to divest it to. That is the dilemma we are in with Rae Lakes Store. We are trying to work with the community. I could put a for sale sign up tomorrow, "general store for sale" but you have the community and regional dynamics of who they are willing to accept. The reason we own that store is because the previous own sold out to the economic development, or however that arrangement was, and they did not have a store. Nahanni Butte is the same thing, a small community of 90 people that we want a general store in. That is the socio-economic side of doing business.

There is no easy answer to your question. We are trying, we feel we have the criteria in place to set our processes so we can evaluate, assess and make a much better decision than what had been made in the past.

CHAIRMAN (Mr. Dent): Thank you. Mr. Roland.

MR. ROLAND: Just a final question. Mr. Koe said that there might be a few more losses coming. Knowing previous administrations and ways of looking at things are impacting on what the corporation is doing right now, do you see a time line when the major losses would be dealt with and you have at least a feeling of a stable situation in the DevCorp, looking at the number of factors you listed in your response to my question. Is there a time line, or when do you see some of these bigger losses evening out and this new way of doing business would take hold and we would see a more stable sort of environment there? Thank you.

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: You have to remember that each entity, including our subsidiaries, and each venture company is an independent company registered under the Corporations Act. Each business is a separate going concern, a separate legal entity. If a company goes bankrupt, or is in legal problems, then there are processes that kick in to deal with it; receivership or whatever else they are going through. We are trying to work these through, and sometimes it takes a long time.

The winding down of Great Slave Lake, they are now working through the environmental clean up liabilities, and that could take two to three more years before we are able to clean our hands and say it is not ours anymore, and we have no more obligations. It is not overnight that you can wind up a company and wash your hands of it.

CHAIRMAN (Mr. Dent): I have no further names on my list – oh, I do. Mr. Bell.

MR. BELL: One last question I would like to get out before I close, I guess. Mr. Koe, as you have indicated in some respects you have inherited a lot of these businesses, these are the cards you were dealt. In this portfolio, there are I guess from a strictly economic viability point of view there are more dogs than stars if I can say that, and I mean no disrespect. I guess the question is, as far as the mandate of the Development Corporation, as our government sees this, should we accept the fact that we are in the job creation business, and we are not in this purely to be involved in investing in businesses that make a pure profit from the private sector's perspective, and should we be focused on job creation but at the same time try to mitigate the losses or try to stop some of the bleeding from some of these companies. But accept the fact that we are in job creation, we are not in the business of insisting on or needing to make profit. Should that be the focus of our mandate? Thank you.

CHAIRMAN (Mr. Dent): Thank you. Mr. Koe.

MR. KOE: That is the current thinking of the board, and how we are addressing the issues of our subsidies to subsidiary companies. In the cases of venture companies, we are looking at it strictly on a business deal, and let us say two, three or four year investment. They pay us back and we go on with other investments. From a subsidy point of view, yes, that is how I believe it should be and that is how the board is trying to deal with these. We have never had a strong political statement saying that. The soft social side of our business. The board has been trying to address it, we have had discussions with the Minister on it.

We are not, just in the true sense of job creation, we are in the sense of making meaningful jobs and career jobs. In the fur business we have had professional furrier training. In our fashion industry we are trying to get designers. In our canvas shop, Fort McPherson Canvas Shop we have cutters, embroidery people, administrative people, so there are careers in these businesses. Fort McPherson has been there for 30 years. You have people who have spent their entire working life there, and that is what we are trying to maintain and develop.

We are looking through our business plans at good training mechanisms to have good training programs to give these people meaningful careers. We have to also look at the volumes. In some cases it is seasonal, where your business needs flow with the weather, and we try to work those in. In McPherson we want to have two shifts. If we were able to have two shifts of workers to meet demands for tents. There are certain times where that happens.

CHAIRMAN (Mr. Dent): Thank you. Mr. Koe, I would like to thank you for your attendance this afternoon at our session and your answers to our questions. I do not believe we have any further questions on chapter 4. Hopefully in the next report from the Auditor General there will not be any comments and we will not have to see you next year.

-- Laughter

-- Interjection

CHAIRMAN (Mr. Dent): Mr. Koe.

MR. KOE: I just want to thank you. The several times I have been in front of this committee have been enlightening. Hopefully we have been able to give you information and provide you with better insight of what we are doing. As my colleague here said, there are companies that will come up in the audits. There are issues with them. We are still working through a lot of them. Some are going bankrupt. Investments were made a year ago that are bankrupt today. We have to deal with those and somewhere address them again. It is not the last you have seen of this corporation.

-- Laughter

CHAIRMAN (Mr. Dent): Thank you, Mr. Koe. Mr. Voytilla, I have one question for you, so perhaps you could join us again at the table. One thing that I forgot to ask when you were appearing in front of us this morning is an ongoing concern I have had about the capability of our FIS. I have felt for years that the system is obsolete, to be kind. It probably costs us money because we are not getting information in a timely basis that would be useful for making competent management decisions. I would just like to know whether or not...I understand our fiscal situation is not as dire as has been predicted and the sky is not falling, at the moment. Has there been any thought given to investing in a new FIS in order to improve our capability? Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. Certainly FIS is getting old. We have been trying to keep it as modernized as you can, given that the engine that is driving it is still the same. We do have in our IT plan an initial proposal to look at its replacement. We expect that it will take us upwards of 18 to 24 months and some front-end money to do the business case and the business analysis to see what we really need today in a modernized, updated financial information system.

These are huge investments for an organization because you expect them to last ten years or 15 years, as the case may be. You not only have to look at what you need today, you have to kind of try to crystal ball a little bit as to what you are going to need ten or 15 years out. We have a lot of questions about what this government is going to look like and operate on in that period of time.

We do not expect that it is a slam dunk to do a quick business analysis and say this is what we need in the financial system. We think it will take some time and energy. We are proposing to put that into our business plan, seek resources to do that business case analysis. My expectation is it will take us 18 to 24 months to do that. If we then had a clear identification of our business needs, a clear business case for making the investment in a new system, then we would be seeking the resources to make that investment. It will not be cheap.

Enterprise-wide financial systems can cost anywhere from $5 million to $10 million to acquire and install, and take upwards of two to three years. We have just been through this experience with our human resources payroll system, so we do know of which we speak.

My expectation is that we are five years away from turning the switch on a new financial system.

CHAIRMAN (Mr. Dent): One question I would have for you: is it realistic to expect to get ten to 15 years out of any electronic system these days?

MR. VOYTILLA: I participated in the implementation of FIS in 1979. We are still using the basic engine. That is 22 years.

CHAIRMAN (Mr. Dent): I would say that makes my case in point. It is not doing the job, in my opinion. I just would really hope that we do not expect too much from technology. I would think eight to ten years is an outside life. That would be more realistic than ten to 15 years for any system that you are looking at. More likely it is less. Private industry is not getting away with eight to ten years. Mr. Voytilla.

MR. VOYTILLA: I would certainly agree with you that the system is not optimal anymore for our business needs. Maybe the life would be shorter than I estimate. However, we still anticipate that there will be major change in our operations in the next ten years. These major system conversions are painful for the organization and expenses, so we do want to minimize them.

CHAIRMAN (Mr. Dent): Any other questions for Mr. Voytilla as a result of our witnesses today? If not, then thank you very much, Mr. Voytilla. This concludes our public session today. Now, I will put it to Members. Would you like to take a 15-minute break and do our in-camera wrap-up and start tomorrow at ten, or would you like to take the rest of the afternoon off and start tomorrow morning early?

Okay. We will take a 15-minute break. We will resume at quarter to four in-camera, with the AG staff here to work on our report to the House based on what we have heard. Thank you.

-- ADJOURNMENT

Reference Guide

Commitments Made By Department

St.Germaine, Warren

- Sierra Contract
  - Exact Cost of 48

Voytilla, Lew

- Audited Financial Statements
  - Earlier Tabling Date
    - Enquire of changing the College's fiscal year end 25
    - Investigate practicality with consolidated entities 23
- DevCorp, Job Subsidy of $25,000
  - Definition of a Job 2
- Motion 29-14(3), DevCorp Subsidy Limit of $10,000
  - Number of exemptions to 14
- Sole Source Contracts
  - Cabinet Decision Guidelines 9
  - Compilation of Data over last three or four years 8
  - Report on Trends 11

Requests Made by Committee

BIP Discussion Paper

- Update on Revised Schedule 12